



Malaysia: Opportunities in Islamic Banking

Increasing Consumer Adoption, Driving Industry Growth

Malaysia Financial Sector – Whitepaper Series
December 2023

Rakuten Insight

EVOLVE
EXPLORE | CONNECT | TRANSFORM

Operating Environment: Malaysia Islamic Banking

Opportunities: Facilitated Industry Growth



National strategic direction and favorable government policies on Islamic finance.

Islamic banking is identified as one of the key thrust sectors to be developed



Growing consumer acceptance of Islamic Banking

Increased adoption among both Muslim and non-Muslim customers



Significant room for growth and co-existence with conventional banking products

Islamic financing accounted for 41% of Malaysia's total banking loans

Challenges: Consumer Willingness to Adopt



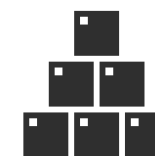
Risk-adverse customers

Depositors' principal and risk are both susceptible under Islamic profit loss sharing scheme.



Conventional customer mindset

Perception that Islamic banking products/services are less competitive compared to conventional counterparts.



Competition

Conventional products have longer existence record, thus perceived as being superior

Source:

- Bank Negara Malaysia, Financial Sector Blueprint 2022 – 2026
- Fitch Rating, Special Report. Malaysian Islamic Banks Dashboard 2023.
- IJMS 23 (1), 1 – 11 (2016). A Study on the Customer's Acceptance towards Islamic Banking products among non-Muslim in dual banking system

* The survey was conducted in partnership with **Rakuten Insight**

Research Approach: ECT



EXPLORE

(Market Understanding)

Establish market and competitive landscape understanding

Methodology

Secondary Research
(Malaysia's IB landscape)



CONNECT

(Consumer Research)

Understand usage and attitudes of consumers on Islamic finance and brand positioning

Methodology

Primary Research
(Quantitative data collection)



TRANSFORM

(Plan & Develop)

Propose new solutions and/or marketing initiatives based on research insights

Methodology

Need-Gap Identification

Research Design



Research Objectives

1. Understanding the consumer's usage and attitudes towards Islamic banking
2. Mapping the brand dynamic among the key Islamic banking providers
3. Identify brand building opportunities and whitespace to drive acceptance and adoption of Islamic Finance among consumers



Our Hypothesis

1. Islamic banking is well accepted by consumers due to its universal values of profit-sharing and social justice
2. Corporate governance, operational efficiency, heritage and universal values are the key drivers to positive perceptions towards Islamic banking
3. There are different perceptions and acceptance of Islamic Banking across different geographical regions of Malaysia

Primary Research Design



COVERAGE

Total Malaysia

Peninsular & East Malaysia



AUDIENCE

Definition

*Main/Joint Financial Decision Maker
Own at least **ONE** Malaysian Bank account*

Profile

Malaysian Citizens aged 21 – 65 years old

Representation

*Quotas on gender, ethnicity, region
& monthly household income (MHI), based on
figures from Department of Statistics Malaysia.*



METHODOLOGY

Method

*Online Interview
(via well-respected, 3rd party consumer panel)*

Interview Length

25-30 Minutes

Sample Size

1,000 Interviews

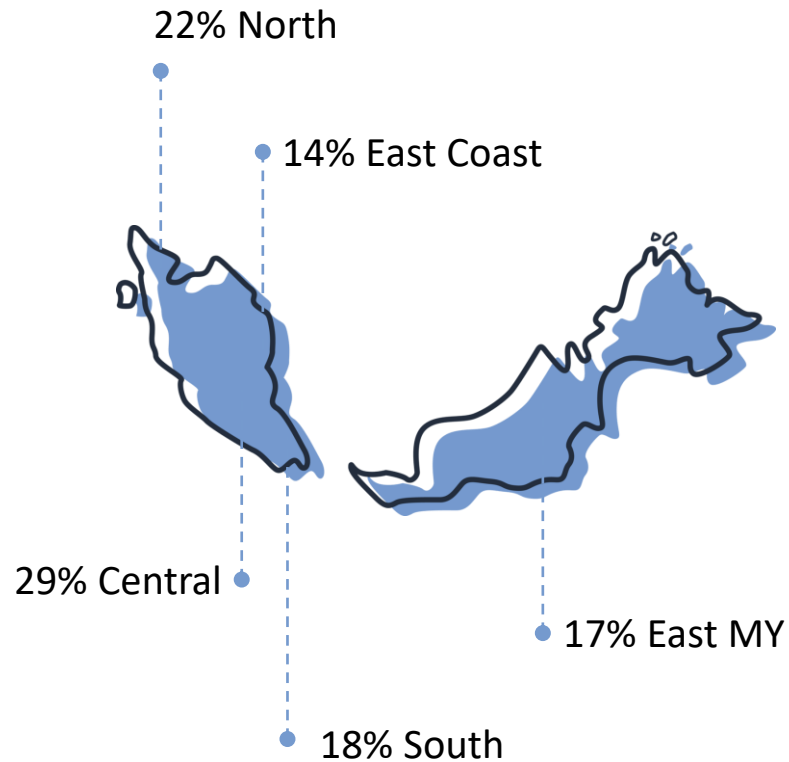
When

Interviews conducted Q2 2023

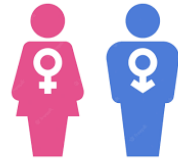
Primary Research Audience Profile Reflecting the National Population

The study was conducted in partnership with Rakuten Insight Global, analyzing 1,000 Malaysian citizens aged 21-65 years old who are main / joint financial decision-makers and own at least one Malaysian bank account, covering both Peninsular and East Malaysia.

LOCATION



DEMOGRAPHICS



50% Female
50% Male



12% T20 (High Income)
46% M40 (Mid Income)
42% B40 (Low Income)
National average MHI RM6,306



63% Malay
29% Chinese
8% Indian



56% Married
44% Single



30% 21 – 29 years old
30% 30 – 39 years old
21% 40 – 49 years old
19% Above 50 years old



60% with Kids
40% without Kids



EXPLORE: Malaysia's Islamic Banking Landscape

A Review of Opportunities and Challenges

EXPLORE: Current Development of Islamic Banking in Malaysia

Islamic finance remains a top priority in the Financial Sector Blueprint to strengthen Malaysia as an international gateway for Islamic finance. With US\$650 billion (RM2.95 trillion) in Islamic banking assets, Malaysia stands as the third-largest country in this domain after Iran and Saudi Arabia (source: Islamic Finance Development Indicator). The global Islamic finance industry will likely grow by around 10 per cent this year and in 2024, after expanding by a similar number in 2022 (excluding Iran).

The growth of Malaysia's Islamic financing is expected to slow in 2023 following robust growth of 13% in 2022, as higher financing rates sap demand. Nevertheless, the sector is expected to continue to outperform conventional banks, due to supportive Islamic finance ecosystem and Malaysia's shift towards Shariah-compliant services.

Islamic finance is the key market for banks to grow their market share. Thus, understanding the consumer's usage and attitude towards Islamic banking, comprehend the market dynamics of brand positioning and identify brand building opportunities among consumers are imperative to drive business growth.



Source:

- Bank Negara Malaysia, Financial Sector Blueprint 2022 – 2026
- Fitch Rating, Special Report. Malaysian Islamic Banks Dashboard 2023.
- New Straits Times, Business Times. Boosting Islamic Finance. 16 August 2023

EXPLORE: Strategic importance of growing Islamic banking market – Business Growth



National strategic direction and favorable government policies on Islamic finance

Under Financial Sector Blueprint 2022 – 2026, Islamic finance has been identified as one of the key thrust sectors to be developed, with a focus on Value-Based Intermediary (VBI) and Environment, Social and Corporate Governance (ESG) financing.



Growing consumer acceptance of Islamic Banking

Adoption of Islamic banking products continues to rise among consumers, due to growing awareness and “Islamic First” strategy by major bank groups and increasing adoption among both Muslim and non-Muslim customers.



Significant room for growth and co-existence with conventional banking products

Islamic financing accounted for 41% of Malaysia's total banking loans in 2022 compared with 38% in 2021, according to Fitch Ratings. This indicates there is still much room for growth as Muslim population is about two-thirds of total population.

EXPLORE: Challenges of increasing consumer acceptance towards Islamic banking



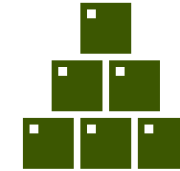
Risk-adverse customers

The choice between conventional and Islamic contracts is one that involves the weighing up of risk and return. Under Islamic banking framework, when depositing, fixed interest payments (RIBA) are avoided, and substituted with sharing profit and loss. As banks could theoretically make losses, depositors' principal and risk are both susceptible under this profit-loss sharing scheme.



Conventional customer mindset

Islamic banking principles focus on risk-sharing and social justice. However, in general, cost effectiveness, intention to use and service facilitation have more significant effects on consumer attitudes than religious factors. This gives the impression that Islamic banking products/services are less competitive compared to conventional counterparts and for Muslims only.



Competition

Islamic banking products are seen as more rigid in contract terms compared to conventional. In addition, conventional products have a longer history, hence being perceived as offering better operational efficiency, liquidity and sustainability.



CONNECT: Malaysia Consumers' Point-of-View

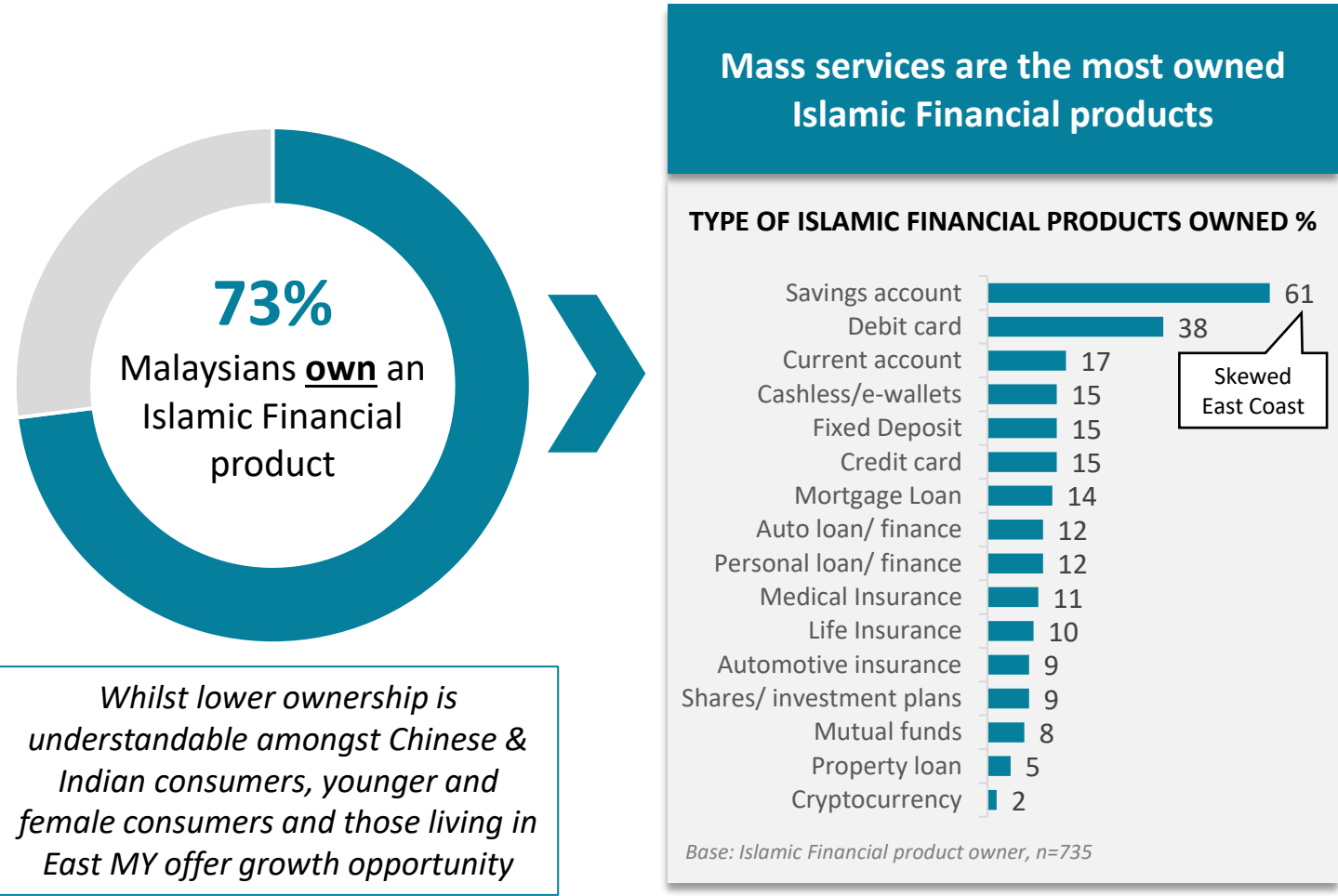
Voice of Consumers on Islamic Banking

Rakuten Insight

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The take-up of Islamic banking products is high (every 2 out of 3 consumers own at least one), choice of Islamic finance is conscious where the Islamic products are meeting both the users' religious beliefs and product needs.

ISLAMIC PRODUCT PORTFOLIO & TRIGGERS (%)

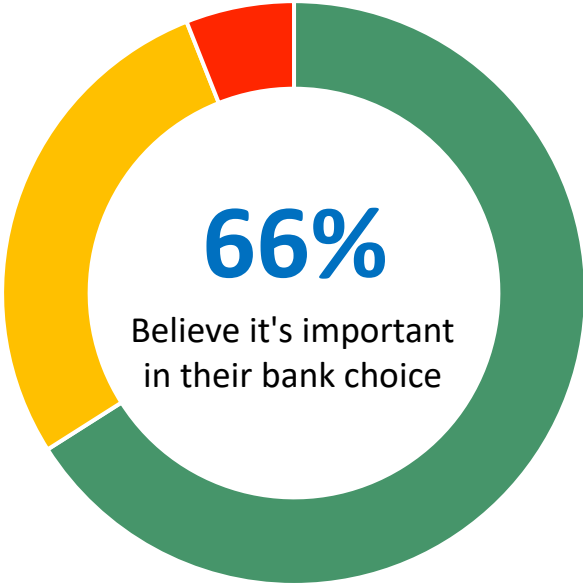


Base: All respondents; n = 1,000
Of the Financial products and services that you currently have, are there any Islamic financial products?
Can you please tell us why you choose to have Islamic products and services?

As expected, availability of Islamic finance products is imperative for the Muslim community. Among non-owners, the attitude towards Islamic finance is apathy rather than rejection.

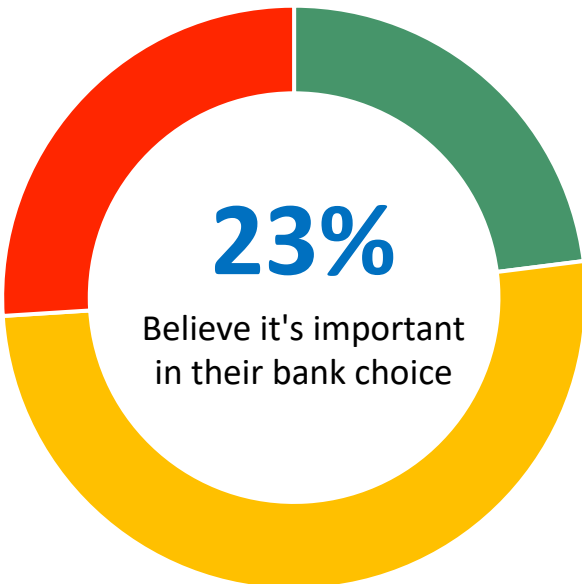
IMPORTANCE OF ISLAMIC BANKING IN CHOICE OF BANK (%)

ISLAMIC BANKING PRODUCT OWNERS (%)



(Skewed 30-39 years old, Malay, North, East Coast)

ISLAMIC BANKING PRODUCT NON-OWNERS (%)



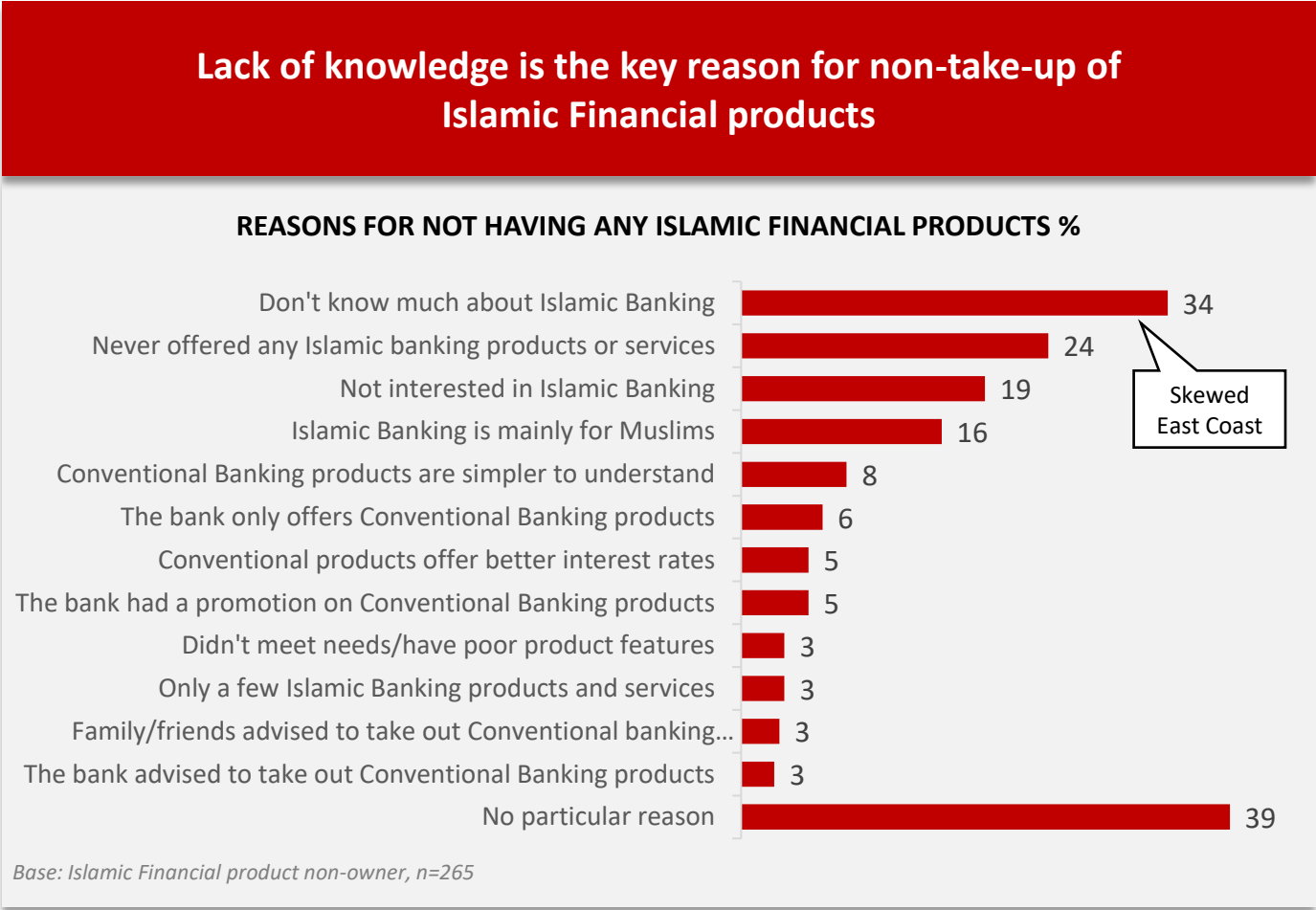
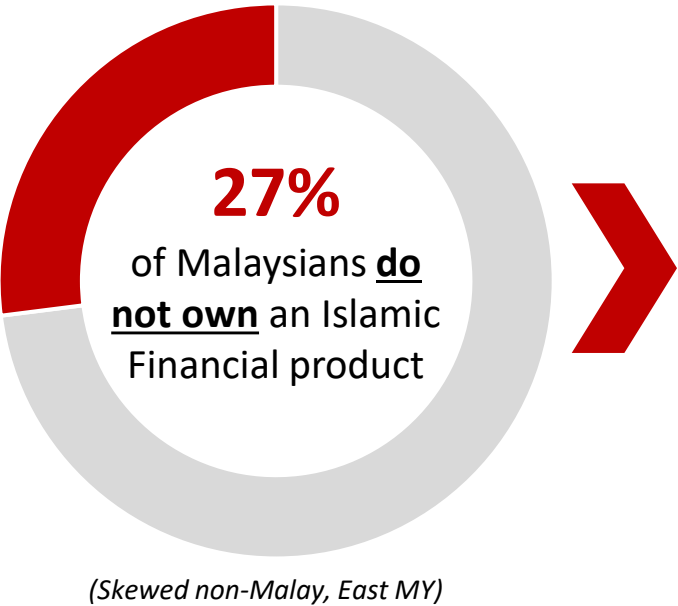
- Important
- Neutral
- Not important

Base: All respondents; n = 1,000
How important is the availability of Islamic banking products and services in deciding which banks you are prepared to use?

* The survey was conducted in partnership with **Rakuten Insight**

Even among non-owners, there is low active rejection towards Islamic Financial products. Familiarity and education of benefits are key to conversion to adopt Islamic banking.

ISLAMIC PRODUCT BARRIERS (%)

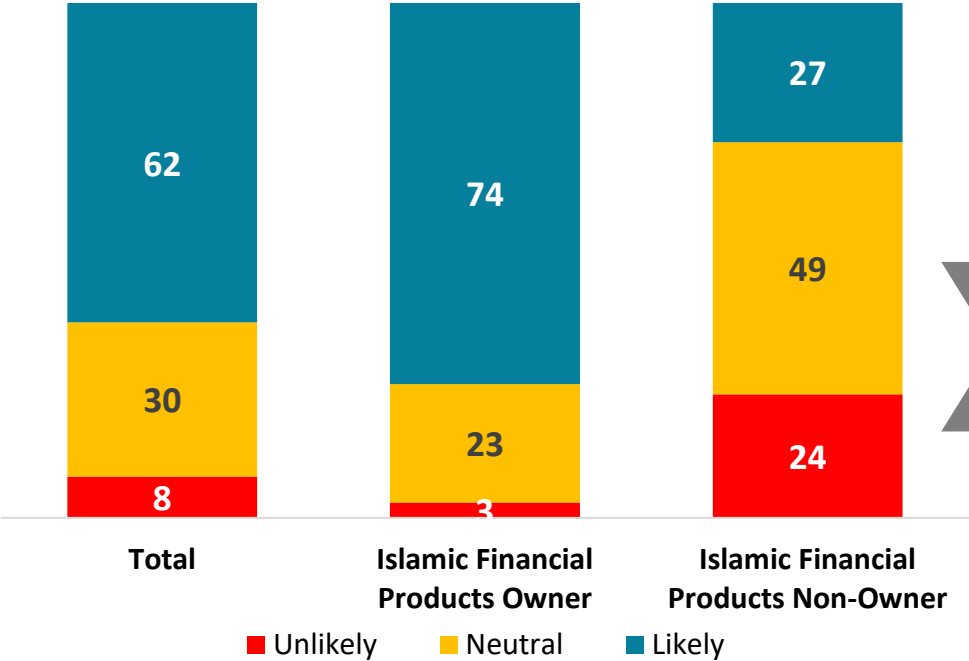


Base: All respondents; n = 1,000
Of the Financial products and services that you currently have, are there any Islamic financial products?
Why do you not have any Islamic products and services?

* The survey was conducted in partnership with Rakuten Insight

Rejection from current owners is negligible, reflecting generally high satisfaction. Future, rejection from non-owners is due to lack of information/education that leads to misunderstanding around Islamic banking.

FUTURE CONSIDERATION OF ISLAMIC PRODUCTS (%)



- They are the same as having conventional banking products/services, I don't see any difference in having Islamic products and services
- Not all Islamic banking products are truly Islamic
- I don't see the relevance of Islamic banking & how it plays a meaningful role in my life
- I'm not a Muslim

Base: All respondents; n = 1,000
How likely are you to consider Islamic banking products and services for your future banking needs?
You said you were unlikely to consider Islamic banking products and services, can you please tell us why?

TOP REASONS FOR NOT CONSIDERING ISLAMIC FINANCIAL PRODUCTS %

TOTAL	OWNER (n=19*)	NON-OWNER (n=63)
16% Not Interested/ Don't need	21% Personal preference	21% Not Interested/ Don't need
11% No difference from conventional	21% Happy with conventional	13% No difference from conventional
10% Islamic Banking is for Muslims	16% Higher charges with lower returns	11% Islamic Banking is for Muslims

Base: Non-Considerer of Islamic Financial Products, n=82

***There is generally low understanding of Islamic Banking amongst non-owners.
Whilst governance comprehension is low, focus should be on promoting suitability for all and the relative advantage to consumers, in a simple and relatable way.***

PERCEPTION TOWARDS ISLAMIC BANKING (%)

	TOTAL	NON-ISLAMIC OWNER	DIFFERENCE
Provide services to businesses	71	54	17
Offers services that align with the religious beliefs of Muslims	70	51	19
Promotes ethical investment and prohibits investment in certain industries	69	50	19
Shariah boards and ethical decision-making ensures strong corporate governance within Islamic banks	63	37	26
Suitable for non-Muslims	61	36	25
Offer a customer Islamic banking products first, when the products closely meet the customer's needs	61	39	22
Fees are charged differently to those for Conventional banking products and services	60	43	17
Promotes a fair distribution of profits and losses between banks and their customers	60	38	22
Transparent about their fees and pricing structures	60	38	22
Promote community engagement and charitable activities	59	34	25
Provide portfolio diversification for investors and help stabilise the financial system	58	34	24
Just as good as conventional banking ones	57	34	23
Less exposed to financial crises due to their risk-sharing approach and prohibition of speculative activities	49	29	20
Nature of Islamic finance transactions provides a barrier against inflation, as returns are linked to the real value of the underlying assets	47	26	21

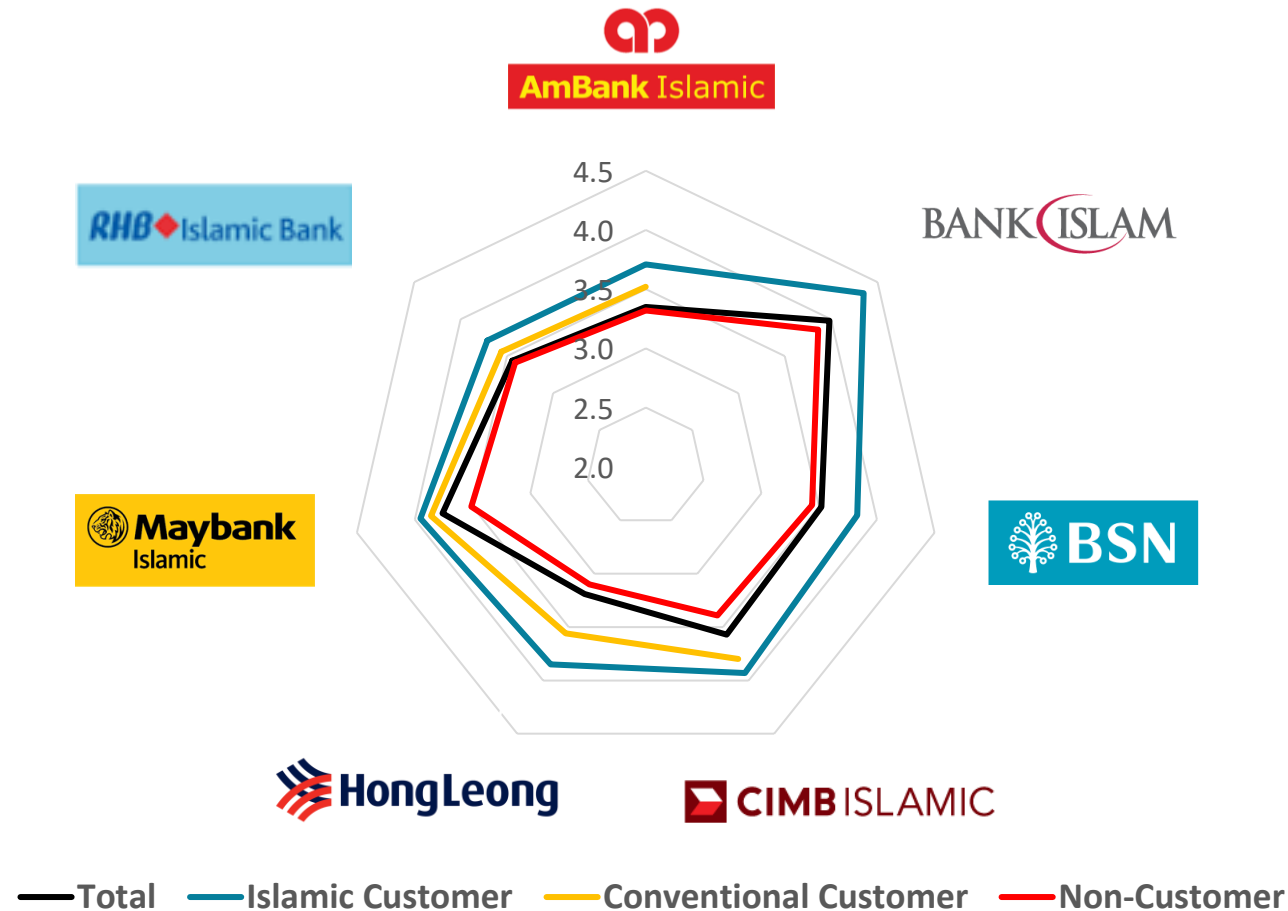
Base: All respondents; n = 1,000

Below are some statements regarding Islamic banking. Please highlight how much you agree/disagree with each statement.

* The survey was conducted in partnership with **Rakuten Insight**

Bank Islam has the strongest association with Islamic Banking, followed by Maybank. HLB is often perceived as more “Chinese” and/or “Non-Muslim” due to brand perception and legacy among the Islamic-only segment.

ISLAMIC BANKS BRAND ASSOCIATION (MEAN SCORE)



Base: All respondents; n = 1,000

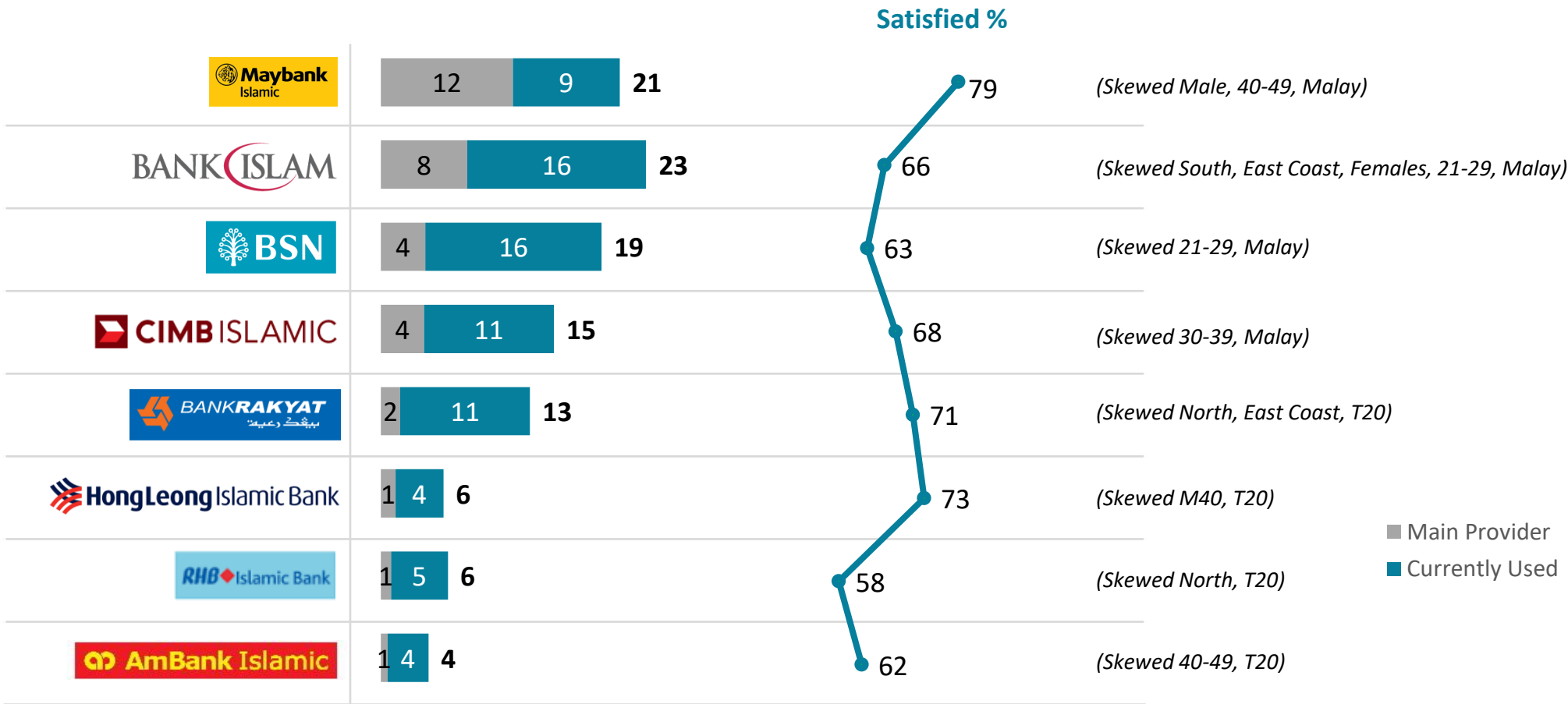
Which of the following best describes how much you associate the following companies with Islamic Banking?

Note: low base for OCBC Al-Amin

* The survey was conducted in partnership with **Rakuten Insight**

Maybank, Bank Islam & BSN are the key Islamic banks with positive satisfaction levels. The Islamic banking sector is less dominated by a single brand, with several providers thriving with segments that they appeal to more.

ISLAMIC BANK USAGE & SATISFACTION (%)

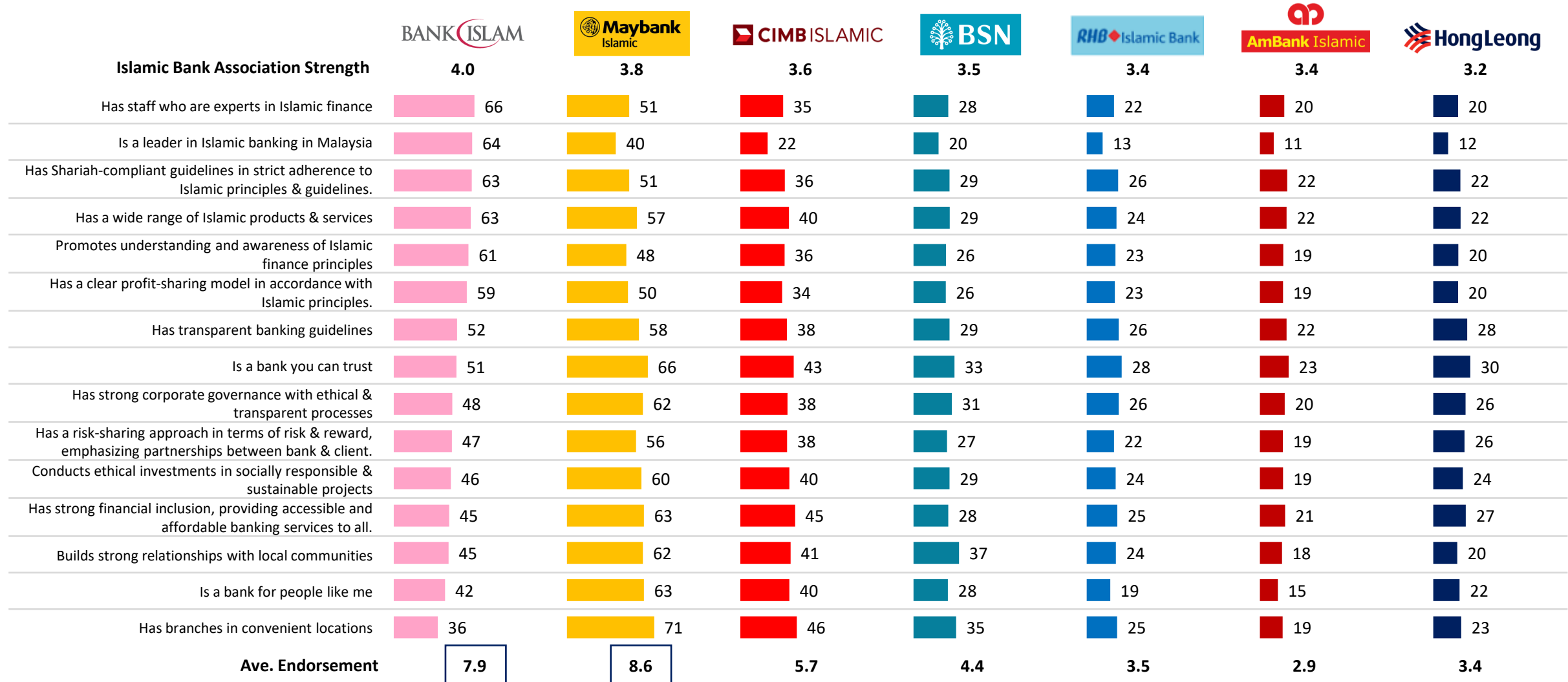


Base: All respondents; n = 1,000
Which bank(s) in Malaysia do you currently use for any banking products and services?
How satisfied are you with each of the banks you have product or services with?
Which one of these banks do you consider to be your main provider of financial products and services?

* The survey was conducted in partnership with Rakuten Insight

Bank Islam has strong endorsement in Islamic-related attributes. Maybank harnesses its halo effect as a banking leader, augmenting their stronger association with Islamic banking.

ISLAMIC BANKS BRAND ENDORSEMENT (%)



Base: All respondents; n = 1,000

Which of the following statements applies to these companies when it comes to Islamic Banking?

* The survey was conducted in partnership with **Rakuten Insight**

Bank Islam's strength lies in Islamic Banking compliance and being seen as an expert in Islamic Banking. Maybank is stronger in being locally relevant, operational efficiency & legacy attributes.

ISLAMIC BANKS BRAND IMAGE PROFILING

	 BANK ISLAM	 Maybank Islamic	 CIMB ISLAMIC	 BSN	 RHB Islamic Bank	 AmBank Islamic	 HongLeong
Islamic Bank Association Strength	4.0	3.8	3.6	3.5	3.4	3.4	3.2
Has staff who are experts in Islamic finance	13	-6	-3	-1	-1	1	-3
Is a leader in Islamic banking in Malaysia	20	-9	-7	0	-2	1	-2
Has Shariah-compliant guidelines in strict adherence to Islamic principles & guidelines.	10	-8	-3	-1	1	2	-2
Has a wide range of Islamic products & services	8	-2	0	-2	-1	1	-2
Promotes understanding and awareness of Islamic finance principles	9	-8	-1	-2	1	1	-1
Has a clear profit-sharing model in accordance with Islamic principles.	8	-6	-3	-2	1	1	-1
Has transparent banking guidelines	-3	0	-2	-2	1	1	3
Is a bank you can trust	-6	4	1	-1	0	-1	3
Has strong corporate governance with ethical & transparent processes	-6	3	-1	0	1	0	2
Has a risk-sharing approach in terms of risk & reward, emphasizing partnerships between bank & client.	-4	0	1	-1	0	0	4
Conducts ethical investments in socially responsible & sustainable projects	-6	3	1	0	0	-1	1
Has strong financial inclusion, providing accessible and affordable banking services to all.	-9	4	5	-2	0	0	2
Builds strong relationships with local communities	-8	5	3	8	0	-1	-3
Is a bank for people like me	-8	8	4	1	-2	-2	1
Has branches in convenient locations	-17	13	7	5	1	-1	-1
Ave. Endorseme	7.9	8.6	5.7	4.4	3.5	2.9	3.4

 **Strong Association**  **Weak Association**

Base: All respondents; n = 1,000

Which of the following statements applies to these companies when it comes to Islamic Banking?

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TRANSFORM: Growing the Business

Create – Raise – Eliminate - Reduce

Increase Adoption of Islamic Retail Banking Services: CREATE



CREATE

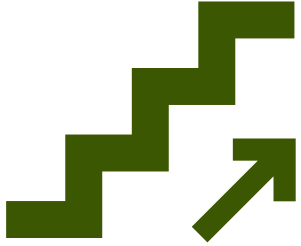
Compatibility

Compatibility assures better security and fewer risks, while also generating stronger value propositions for existing and future users. Islamic banking needs to be seen as compatible with (i) socio-cultural values and beliefs, (ii) formerly introduced ideas i.e. conventional banking, or (iii) client needs for innovations/solutions. Compatibility in Islamic banking adoption is understood as the configuration of customer's banking preference with their existing habits, need and style. Ideally, not much change is required from end-user side, with more relative advantages when adopting Islamic Banking products/services versus conventional counterparts.

Trialability

Trialability of an innovation is the level to which it can be tested on a small scale. The purpose is to reduce potential users' uncertainties and boost their faith in adopting Islamic banking products. Consider the introduction of small-scale products with low entry costs, to allow consumers to experience the benefits of Islamic banking products e.g. savings accounts, micro-investment and micro-takaful so consumers could experience "almost" instant gratification.

Increase Adoption of Islamic Retail Banking Services: RAISE



RAISE

Consumer Awareness

Majority of consumers are still unable to distinguish between Islamic and conventional banks. In a dual-banking environment such as in Malaysia, consumers need to be aware the relative advantages of Islamic banking products versus their conventional counterparts.

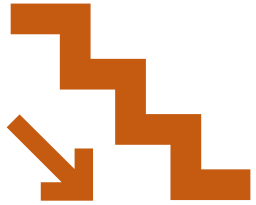
Relative Advantage

This is one of the greatest predictors of Islamic banking rate of adoption. Relative advantage specifies the benefits and the costs ensuing from the adoption of an innovation. Moreover, the degree of economic profitability, low initial cost, the immediacy of the reward, a decline in discomfort, and a savings in effort and time (i.e. service charges, profits earnings and incentives) of Islamic banking products and services need to be emphasized.

Observability

Tap into existing customers, turn them into ambassador by making it easier to communicate the benefits of the product. Thus, the benefits will be more visible and receive better acceptance from other potential adopters.

Increase Adoption of Islamic Retail Banking Services: REDUCE



REDUCE

Uncertainty

In the perspective of Islamic banking, perceived risk/uncertainty is portrayed as the probability that a product does not perform as expected. In Malaysia, the operations of Islamic banks is strictly governed and monitored. However, there exists mistrust and uneasiness, especially in the case of conventional banks, which set up Islamic entities to sell Islamic financial products. These banks handle both interest-free banking and interest banking operations at the same time. Muslim consumers are concerned about the level of Shariah-compliance of their products. Whereas non-Muslims adopters are more concerned about the economic benefits and relative advantage. Islamic banks need to balance carefully between the two extremes of “too Islamic” vs “doubtful”.

Complexity

As in the degree to which Islamic banking is perceived as relatively hard to understand and use. Among respondents, only a small minority expressed that Islamic banking is readily understood by them. Individuals will likely adopt Islamic banking when they discover such products and services are easy to understand and simplify their banking needs. Thus, the need to communicate in layman terms, easy to understand and free from Islamic jargon in both product sheet and product/service contract will ease adoption of Islamic banking.

Increase Adoption of Islamic Retail Banking Services: **ELIMINATE**



ELIMINATE

Perception of 'For Muslims Only'

Islamic banking institutions should not emphasize – and depend – only on religious aspects to attract new customers. Islamic products need not only be perceived as compatible to the religious belief of Muslims customers but must also be seen as compatible with banking needs among non-Muslims customers.

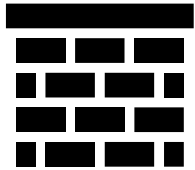
Prospective customers might have a different perception towards Islamic banking. For example, some might view Islamic banking as a complex and complicated system, even though all the basic procedures are practically and technically similar to conventional systems, except for the underlying fundamentals which are based on Shariah principles. This ties back to earlier strategies on communication, product development and user journey to provide products and services similar (or even more superior than) conventional banking.

Next Steps



Develop Communication Strategy

Detailed analysis by states and demographics to draw up communication strategy and specific marketing tactics



Brand Building as Prominent Islamic Bank

Assessment of different market segments, enabling banks to create focused and targeted products, offers and experiences



Increase adoption of Islamic Finance among Non-Users

Improvement of banking experience through gradual introduction and education of Islamic banking solutions

Who Are We – A Brief Introduction



Founded in 2021 by Alan and YC, Evolve Consulting is committed to humanistic research for our clients, and look for **"People = Story = Insights"** through our **explore, connect, transform** framework.

We offer Research and Consulting solutions to support our clients from strategic down to tactical level:



- Market landscape
- Category understanding
- Purchase behaviour
- Market segmentation



- Branding & communication
- Product innovation
- Concept testing
- Proposition & pricing
- Customer profiling & targeting
- Ads evaluation



- Customer experience
- User experience
- Customer feedback & close-loop
- Brand tracking
- Employee engagement

About the authors



Jon-Paul Best

Senior Consultant

British at heart but having resided in Malaysia for 16 years, JP considers it home. His time in Malaysia has provided an enviable understanding of the diverse views and behaviours of the rakyat.

With proven success leading several international MR organisations, he thrives in an agile environment. He has a passion for getting his hands dirty, striving to ensure his clients get the best possible insight.

JP is also a certified Black Belt in Business Process Improvement.



Alan Oh

Co-founder of Evolve Consulting

Alan is different and does not conform to the traditional ways of working – with a distinct style of connecting and translate data & insights into innovative, narrative driven solutions for his clients.

Alan boasts cumulative experience in marketing research, venture capital and consulting. He is passionate about delivering humanistic, sustainable business strategies, offering a unique perspective that embraces a more humanly approach.

Alan is also a certified HRDF trainer and a masterful storyteller.



YC Loh

Co-founder of Evolve Consulting

YC consistently applies analytical and logical thinking, aiming to simplify intricate research processes and derive insights that effectively address complex business challenges.

YC possesses a versatile skill set in primary research, and encompasses innovative approach to understand consumer behaviour, meticulously applied within the research design.

YC's entrepreneurial spirit is a source of pride and motivation, driving a passion for innovation and business excellence.

Our Capabilities And Partners



Research Technology

Online and offline research through advance SaaS platform



Desk Research

Collect, analyze and synthesis of existing research



Statistical Analysis

Adopting advance statistical analysis in deriving the outcome or story telling

Our research partners



Rakuten Insight Global

For over 25 years, Rakuten Insight Global has been at the forefront of consumer market research data collection. By combining our 1st party data with the highest levels of quality assurance processes, Rakuten Insight Global has remained our clients' trusted research partner for Asia, US & Beyond.

Our proprietary, double opt-in online panels have been developed throughout 12 major Asian markets & the US. All of the panels are managed by dedicated local support teams and meet the highest industry standards. The Rakuten Insight Global team offers 24-hour coverage from 11 worldwide locations, providing exceptional service for 500+ clients across the globe.

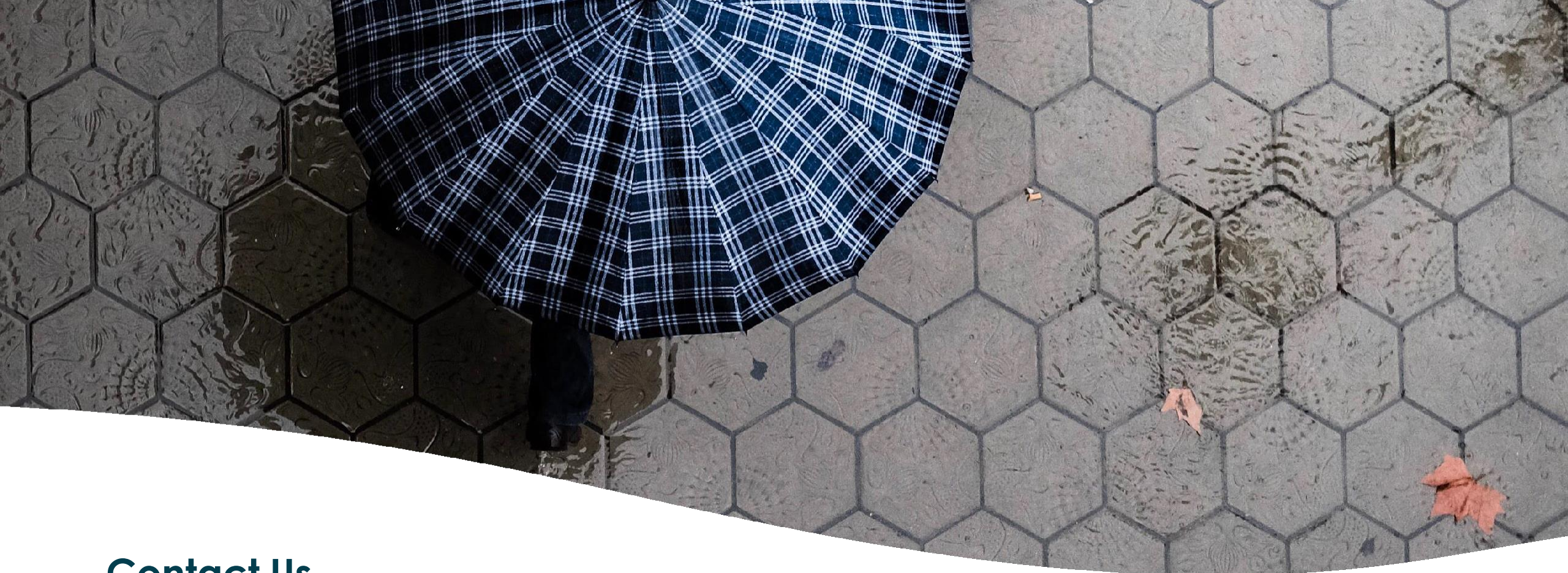
Rakuten Insight Global is tasked with leveraging the 1st party membership assets of the Rakuten Group for market research purposes. Having access to such a diverse and unique group of research participants allows Rakuten Insight to remain at the forefront of online research.

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