

# Customers' Intention to use Islamic Home Financing in Pakistan: An Extension of Theory of Planned Behaviour

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## Abstract

The purpose of this study is to investigate the intention of Pakistani customers' to apply for Islamic mortgage by extending the theory of planned behaviour. Theory of planned behaviour (TPB) literature coupled with Islamic home financing is reviewed in order to determine the factors that may contribute to a customers' desire to participate in Islamic home financing. The findings from the review suggest that social influence, customer's attitude, their self-efficacy and religious belief are influential on their intention to apply for Islamic home financing. Primarily, this study is limited in scope as only the review of literature is conducted from previous studies and therefore future researchers may validate the proposed constructs empirically by identifying the factors that might help to fully understand customers' intention. Secondly, this work is limited in terms of applicability of consumer theories as it is drawn upon by TPB. Therefore future studies may also utilize other related theories including but not limited to diffusion of innovation (DOI) theory, the decomposed theory of planned behaviour (DTPB), technology acceptance model (TAM) and unified theory of acceptance and use of technology (UTAUT). The focus of this study is on customers' intention towards Islamic mortgage in Pakistan. This work adds a religious belief construct and extends the TPB model. To the best of authors' knowledge, religious belief is not introduced using the TPB model in the Islamic mortgage context in Pakistan.

Key words: Pakistan, Home financing, TPB, Mortgage

## Introduction

House is one of the basic need that is required by an individual in order to fulfil life activities and there are nearly a billion houses being rented throughout the globe (Shaikh, Noordin, & Alsharief, 2018). In a dual-banking economy, there are a considerable number of products tendered by the banking institutions including conventional and Islamic banks that may cater to the needs of their customers (Shaikh & Noordin., 2018). There are both interest-free and conventional banks present in Pakistan.

Pakistan's housing market is not well developed and in terms of gross domestic product (GDP) it is accounted for 1 per cent or lower (Shaikh et al., 2018). In a statement Munir Sultan of Karachi Chamber of Commerce said that "Pakistan needs project financing and financial institutions in the country are not doing enough to cater to the housing needs". He added, "There is no big difference between Islamic home financing and Conventional home financing and Islamic banks need to cater to the house financing sector with project financing as it will be beneficial for both consumers and banks". He expressed concern that "people are not much aware of Islamic home financing, so therefore there is a need to disseminate information on the basics of the subject". Regardless of such a grave condition banking institutions are playing a pivotal role in financing activities by providing mortgage facilities to their customers. In Pakistan, Islamic mortgage in particular, is offered by Islamic banks and they use Diminishing partnership product, which is based on principles of Islam. In order to cover such financing, the central bank of Pakistan along with the assistance of the World Bank and the Government of Pakistan formed a mortgage refinance company (MRC) (SBP, 2015). According to (Shaikh et al., 2018; Butt et al., 2011) interest-free or Islamic banking is not as prevalent as its conventional counterpart.

This phenomenon triggers the investigation of the determinants, which affect the participation of banks customers towards Islamic mortgage. In a similar vein, in the Pakistani context, this research identifies the factors that are responsible for customers of the bank to use Islamic mortgage. The preceding work on Islamic mortgage (e.g. Ayesha & Omar, 2011; Taib, Ramayah, & Razak, 2008; Amin, Rahim, Dzuljastri, & Hamid, 2017; Shaikh & Noordin., 2018; Hamid, Yaakub, Mujani, Shari-zam, & Jusoff, 2011; Usman & Mohd, 2016; Shaikh et al., 2018; Mohammed & Mehmet, 2012; Razak & Taib, 2011) enriched the literature on predictors of intention of customer in order to use Islamic mortgage but all of these researchers were unable to extend constructs of self-efficacy and religious obligation in one model. Taking note, the authors in the current work add these factors by applying the extended model of TPB with reference to Pakistan.

Furthermore, this study significantly adds to the literature on Islamic mortgage. Managers and the practitioners of the Islamic banks will benefit from this research work. Mainly with regard to guidance for future research, this work will assist research scholars in enhancing research at infancy stage, specifically in the Pakistani Islamic mortgage market. In addition, the rest of the paper contains a section on literature review, the theory of planned behaviour and determinants of intention to use Islamic mortgage followed by a section on the development of the model.

## Literature Review

A plethora of research is taken into account with a bid to identify the factors, which are responsible for the customer's intention to use Islamic home financing. This topic is undertaken in different disciplines arguably from a different frame of reference. In a similar vein, from a consumer behaviour perspective a study by Alam, Janor, Zanariah, and Ahsan(2012) drawing upon the theory of planned behaviour investigates the effect of religiosity on the intention of the customer on the way to opt Islamic mortgage in Malaysia. Furthermore, the results present that religiosity, perceived behavioural control, subjective norms and consumer's attitude are vital determinants. Amin et al. (2013) on the same note, in an endeavour to investigate customer's receptivity towards Islamic mortgage, used a combined approach by employing diffusion of innovation theory and theory of planned behaviour. Amin, Rahman, and Razak (2014a) expand the theory of planned behaviour framework with a bid to comprehend the level of willingness one has in order to be a partner for a specific product for Islamic mortgage, namely, diminishing partnership. The findings of the study were attained by employing structural equation modelling approach. In addition, attitude turns out to be the most significant factor for consumer's willingness apart from others, namely, subjective norms and perceived behavioural control. Furthermore, widening the scope in Islamic mortgage domain, contemporary scholars Amin, Rahman, and Razak (2014b) coined the Islamic consumer behaviour theory so as to anticipate the determinants that influence consumer's acceptance of Islamic home financing. This approach adopted by the authors differs from previous studies in a way that this study used a framework that has roots from the Shariah

objectives linked to satisfaction from religion. Moreover, the theory of interpersonal behaviour is lacking empirical support on theoretical grounds.

In a similar vein, consumer's attitude towards Islamic home financing is examined by adding the unexplored factors, which are Islamic debt policy, service quality effects and product choice by incorporating attitude as a mediator (Amin et al., 2017).

Shaikh and Noordin. (2018) with a view to studying differences in attitude of customers' in Pakistan and Malaysia concerning Islamic mortgage finds that there exists differences. The difference in opinion is related to price fairness, the procedure and doctrine of share in profit, and the profit computation procedure (Shaikh & Noordin, 2018).

Shaikh et al. (2018a), in the same line, identify determinants of consumer intention towards Islamic mortgage in Pakistan. The results put forth that self-efficacy is the most significant predictor along with social influence, awareness and attitude towards an intention to use home financing.

Arranging into line the findings of the past studies it is argued that these researchers add multiple factors using a conceptual framework, which is derived from different consumer theories and expounded its implication in predicting the intention of the consumer. Taking this into account, the novelty of the present research is that it proposes religious belief and self-efficacy by extending the theory of planned behaviour in the context of Pakistan.

## Theory of Planned Behaviour and Determinants of Customer's Intention

### Theory of Planned Behaviour

Theory of planned behaviour (TPB) is an extension of the theory of reasoned action (TRA) (Fishbein & Ajzen, 1977). Fishbein and Ajzen (1977) proposed TPB in an attempt to determine the factors that are likely in performing a particular behaviour. There are similarities in TPB and TRA in such a way that these consumer theories take into account the predictors for intention towards behaviour and real behaviour, whereas the consumer intention is anticipated by attitude and perceptions related to attitude concerning the behaviour (Glanz, Rimer, & Viswanath, 2008). In a similar vein, Fishbein and Ajzen, (1977) incorporated additional factors related to intention, which is perceived behaviour control in the TRA's original model along with the antecedents of subjective norms and attitude. Ajzen (1991) defines attitude as a behaviour that is performed by an individual favourably or unfavourably. In addition, Ajzen (1991) explains that subjective norms are related to one's insight regarding others point of view who act as prospective referents associated with the behaviour.

However, the additional construct in TPB, which is perceived behaviour control (PBC) is subject to disagreements (Kraft, Rise, Sutton, & Røysamb, 2005; Armitage & Conner, 2001). Hence, in this study, PBC is substituted with self-efficacy.

## Determinants of Intention to use Islamic Home Finance

### Religious Belief

The role played by the religion to influence the preference an individual has, coupled with the acts one performs is referred to as religious belief (Amin, Abdul, Stephen, and Ang., 2011). There are diverse findings presented by past researchers. To add few, Omer (1992) points out that belief deriving from the religion is the primary reason to opt for Islamic banking among Muslim consumers in the UK. From another point of view, Amin et al. (2011) notice that religious obligation has no significant association with intention of consumer towards personal financing, which is Islamic.

### Self-efficacy

According to Bandura (1977), the term self-efficacy is affiliated with one's decisions that are linked to their skills and competencies to carry out particular behaviour. In a nutshell, self-efficacy related to an individual's self-confidence in performing a specific activity plays an important impact on the behaviour (Ajzen, 1991). Self-efficacy's underlying concept is basis of the action of an individual with regards to confirmation bias held by him or her (Barling and Beattie, 1983). Md Husin and Ab Rahman (2016) tested self-efficacy in the Malaysian context and reported that there is no significant influence of self-efficacy on the willingness of the consumer to apply for the Malaysian Takaful scheme. Bearing in mind, that in the domain of Islamic home financing there are limited writings on the contribution of self-efficacy in having a bearing on consumer behaviour, in the present research self-efficacy is incorporated as customer intention's predictor. Thus, it is expected that the role played by self-efficacy is significant in terms of affecting consumer behaviour in decision making.

### Attitude

Attitude is an emotional feeling that is enunciated in the furtherance of a negative or positive evaluation of a substance (Ajzen, 1991). On the whole, the more favourable this tendency towards a particular behaviour, the higher is the likelihood an individual will desire to involve in that behaviour. Earlier research work, in the context of financial products devised upon Islamic principles that are drawn upon a framework based on TPB and DTPB marks a consumer's attitude lies at the core of envisaging the intention of a consumer (Md Husin & Ab Rahman, 2016; Amin et al., 2014; Shaikh & Noordin., 2018; Alam et al., 2012; Echchabi & Aziz, 2012; Amin et al., 2011; Shaikh et al., 2018a).

### Social Influence

Social influence can be defined as the perceived social pressures borne by an individual that direct him to either to perform or not to perform the behaviour (Ajzen, 1991). It also assumes that how important an individual predicts regarding the commitment of certain conduct is considered by others. Social influence or social factor is employed previously by multiple researchers (e.g. Hansen, Jensen, & Solgaard, 2004; Amin et al., 2014; Olaniyi & Echchabi, 2012; Shaikh & Noordin., 2018; Amin & Chong, 2011; Gopi & Ramayah, 2007; Shaikh et al., 2018a).

## Proposed Research Model and Methods used

### Proposed model

The conceptual model for the current research is sourced from Ajzen's theory of planned behaviour (Ajzen, 1991). In the current research framework, TPB is extended by adding a new construct of self-efficacy (Shaikh et al., 2018). Originally, Bandura (1977), proposed the concept of self-efficacy and asserts that prospects related to the feeling of performance, motivation, as well as frustration, are likely associated with the repeated failures, and they are essential to the effect as well as behavioural reactions. The model of TPB has been previously tested in the perspective of Islamic mortgage by previous scholars, to mention a few i.e. Shaikh et al. (2018), which is the first work to substitute perceived behavioural control (PBC) with self-efficacy in context of Islamic home financing. Furthermore, this study operationalized the main constructs of TPB including customer's attitude, social influence, self-efficacy and religious belief. Amin, et al. (2014a), validates Islamicity of product, subjective norms, consumers' attitude and perceived behavioural control as factors of adoption for Islamic mortgage. Previous researchers applied Ajzen's TPB theory in order to study the consumer behaviour in the domain of Information Technology, psychology and marketing studies etc.

Likewise, it is proposed on account of the present research to redefine the subjective norm alike, (Shaikh et al., 2018; Amin et al., 2011) with social influence. By the same token, religious belief construct still remains to be established by employing TPB in the domain of Islamic home financing precisely in Pakistan's perspective. The current study focuses more on the prediction of intention, social influence. Following the study of Amin et al. (2014), this research formulates the model without taking into consideration actual behaviour. Figure 1 depicts the proposed conceptual model used in this study.

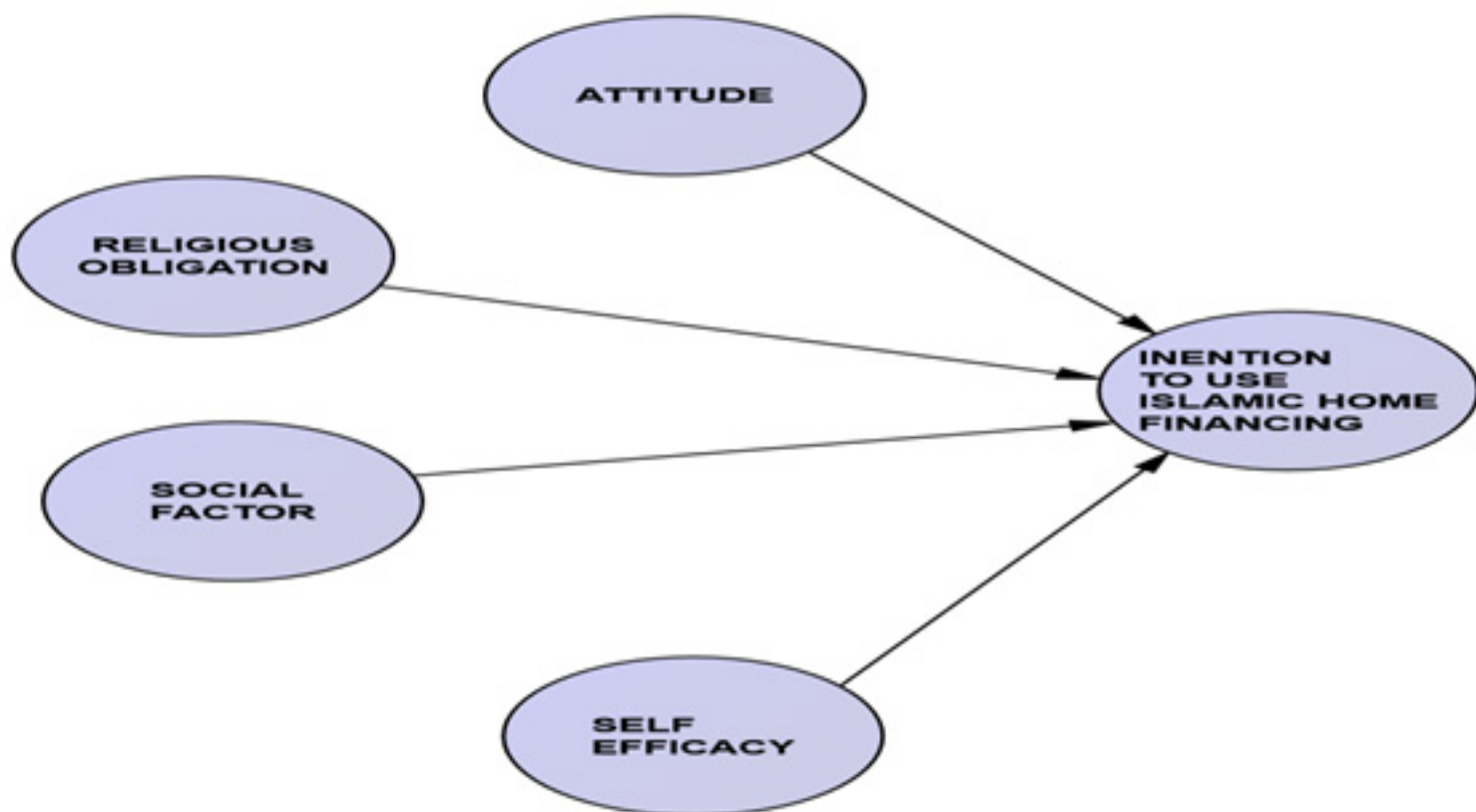
### Measures of the determinants

The extension of TPB is with respect to enhance the theory's predictive competency in specific settings (Conner & Armitage, 1998). Moreover, the measures used in this research are: Social influence construct is adapted from (Gopi & Ramayah, 2007); Self-efficacy construct is adapted from (Khalil, 2005); Intention to use Islamic home financing construct is adapted from (Amin et al., 2011); Attitude construct is adopted from (Taib et al., 2008); and Religious beliefs construct is adapted from (Hall, 1977).

## Discussion and Conclusion

The aim of this study was to identify the factors which affect the intention of the customer in order to apply for Islamic mortgage in Pakistan. The findings from the review suggest that social influence, customer's attitude, their self-efficacy and religious belief are influential to their intention to apply for Islamic home financing. Altogether, these factors may lead the managers and decision makers of Islamic banks in terms of guidance required by the customers by considering the self-confidence of their customers. Islamic bank may take a step forward by disseminating education related to their mortgage products so as to attract their current consumers.

Figure 1: The conceptual model



Furthermore, in developing a framework for this study, it is assumed that the customers' will have a positive attitude towards home financing offered by the Islamic banks.

On a related note, the theoretical framework proposed by extending TPB explicates a better understanding of customer's intention towards Islamic bank mortgages. Furthermore, it is also highlighted by the authors that in order to gain support from the customers Islamic banks may also need to improve their Islamic mortgage product in Pakistan.

#### Limitations and Future Research Directions

Primarily, this study is limited in scope as only the review of literature is conducted from previous studies and therefore future researchers may validate the proposed constructs empirically by identifying the factors that might help to fully understand customers' intention. Secondly, this work is limited in terms of applicability of consumer theories as it is drawn upon TPB. Therefore future studies may also utilize other related theories including but not limited to diffusion of innovation (DOI) theory, the decomposed theory of planned behaviour (DTPB), technology acceptance model (TAM) and unified theory of acceptance and use of technology (UTAUT). The focus of this study is on customers' intention towards Islamic mortgage in Pakistan. This work adds a religious belief construct and extends the TPB model. To the best of authors' knowledge, religious belief is not introduced using the TPB model in the Islamic mortgage context in Pakistan.

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