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INVESTIGATING THE SELECTION CRITERIA FOR ISLAMIC HOME FINANCING APPLICATION IN KSA

Reem Mushabbab Al-Otaibi¹, Jamaldeen Faleel²

^{1,2}College of Business, Effat University, Qasr Khuzam, Saudi Arabia,

E.mail: 1rimalotaibi@effat.edu.sa 2jfaleel@effatuniversity.edu.sa

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ABSTRACT

Islamic financing and banking have taken all over the world. There are different tools that are now being set-up for various purposes. One of the reasons to use Islamic banking in Saudi Arabia is to help people take loans for home financing. This research aims to investigate the criteria for Islamic home financing applications in Saudi Arabia and relate this with the various demographic variables. The purpose behind this research is to highlight the main factors that decide selection criteria for Islamic home financing with regard to age, gender, professions etc. This study will help the financial institutions such as investment companies and banks who are offering Islamic home financing facilities to the Saudi residents and marketing managers of the banks to design new products, change the existing products and to promote new products. The methodology consists of both qualitative and quantitative collection and data methods which enable the research to have a rich touch of information. At the same time a questionnaire was conducted to gather the primary data. A total of 76 respondents were participated in the questionnaire survey. The study concluded majority of the respondents strongly agree with the *Shariah* Principle, 100% financing option, high quality service a good reputation, efficient service quality and product range of a bank.

CCS CONCEPTS • Insert your first CCS term here • Insert your second CCS term here • Insert your third CCS term here

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INTRODUCTION

Selection choice criteria for Islamic home financing are very important these days and a lot of attention is being paid to it as compared to olden days [1, 2]. It is important for both the banks and the consumers to have an idea about their loan options as it will allow them to select the options. Saudi Arabia is also able to give loans in terms of mortgages and new financial tools are being added. A review of the relevant literature revealed that very few researchers tried to examine the choice criteria for a mortgage provider in the home loans market. Studies by Lymperopoulos et al. [3], Devlin and Ennew [4], Devlin [5, 6] and Ford and Jones [7] examined the choice criteria used for a mortgage provider selection. Evidently, these researchers still overlooked the choice criteria for Islamic home financing. On the other hand, many studies have examined the choice criteria for a banking selection in general [8].

Kennington et al. [9] investigated banking selection in Poland and found that reputation, price and service are the key factors affecting bank customers' decision to select banks. Furthermore, they also found that the bank's image, stability and continuity, the service-charge policy and the competitiveness of rates, the quick, polite and friendly service are the most important factors in explaining how customers choose banks. As far as Poland is concerned, time, efficiency and pleasant treatment are critical for bank customers in judging banks to patronise. It is then important for a banking institution to stress these choice criteria in attracting customers.

Researchers have found various factors of selection specific to Islamic home financing including religion, fast and quality services, reputation, profit, financing payments, location, recommendation, etc. The main purpose of this study is to investigate the selection criteria of customers using Islamic home financing in Saudi Arabia. Saudi Arabia is one of the major Muslim countries with significant growth in Islamic home financing and there is a need to find out the factors that affect the selection decision of customers for Islamic mortgages.

Islamic banking can be considered as banking with a sense of right and wrong and ethics. Islamic banks each has a *Shariah* board made up of a *Shariah* researcher and financial experts who are responsible for decisions regarding what activities or actions are *Shariah* compliant. According to Amin [8] the choice criteria in bank selection for mortgage loans in Greece. Regarding choice criteria, they found that the bank service quality is the most important element that customers consider in order to select their mortgage providers and establish a long-term relationship with them. Other important criteria for bank selection for home loans are product attributes, access and communication. Devlin [5, 6] examined the choice criteria in bank selection for home loans in UK. Furthermore, Devlin [5, 6] also examined the choice criteria by investigating several demographic factors namely gender, social class, household income and financial maturity. Additionally, interest rates, loan availability, and previous relationship with the bank are also considered

to be important factors in selecting a mortgage provider. On the other hand, service quality was found to be the least important choice criterion. The service quality is important for a selection of a mortgage provider.

Home financing is one of the emerging fields in the financial global market; the pace at which it is growing all over the world is indeed phenomenal. It has grown and taken a lot of importance in Saudi Arabia's and its economy. With the induction of home financing options in Saudi Arabia both its financial and banking sectors have seen a tremendous boost in the past few years. Saudi Arabia financial institutions and banks are taking steps to introduce new methods of financing and also trying to give their consumers different option and selection criteria. The home financing system depends on the Islamic Banking options and allows consumers to take loans to they can finance their home loans depending on the need. Therefore, this study investigates the criteria for Islamic home financing applications in Saudi Arabia.

METHODOLOGY

The aim of this research is to investigate the selection criteria for Islamic home financing application in KSA. For this purpose the both quantitative and qualitative approach are used to study the responses from the questionnaire. The reason for conducting this study is to identify the hidden facts behind the selection criteria and to achieve explicit results.

Data Collection

There are two type of data collection involved in this study, namely primary data and secondary data. Primary data provides a frame work for the collection and analysis of data, also a choice of research design reflects the decision about priority being given to a range of dimensions of the research process. Therefore the research design would be descriptive because it helps to analyse as well as explore interrelationships [10]. Secondary Data is the background information would be provided by the information gathered and discussed in literature review of this research. Similarly the topics used in this research would be helpful for confirmation or modification of findings.

Research Approach

Research states that the importance of qualitative research is the collection of numerical data as well as analysis for various sorts of measurements. Though qualitative research is tough to design, but result achievement of precise and accuracy can help to judge statistics [11]. Quantitative approach would help understand the responses out of blend of questions based on discussed factors in literature review. This will help the researchers to see the responses that will be collected from the questionnaire and link it to the literature review studied. A questionnaire is designed with a set of 16 questions in two sections. First section is demographics and second section is to know about the opinions of the people.

Qualitative approach refers to assessment of individual or personal information subject to values, attitudes or perceptions if compared to quantitative approach. Although this method is easy to initiate but findings and results can be challenging [11]. The qualitative approach would also be used in order to reach out to the industry professionals to gather apprehended facts (if required). One of the reasons for carrying qualitative approach along with quantitative is to gather data according to selected questions for questionnaires after the analysis of the data in the tabular form

Sampling Design

Sampling is an important concept in the methodology chapter and having a sampling plan is important. It allows doing the sampling frame, target population, sampling size. Basically, a sampling frame is a complete list of all the members of the population that we wish to study. This research will study about the different age group both male and female. The target population is between the age of 25 and above till 50 and consists of both males and females. The sample size for this research will be 70 to 150 depending on the response rate. The final sample size was 76 respondents.

Research Instrument

The research instrument to be used here is questionnaire. The research methods used in this research were both qualitative and quantitative. The qualitative method consisted of primary data that was collected from the data from the questionnaire that is a set of 16 questions with 2 sections A&B. Secondary data collection consisted of literature review data that was collected from academic books, online journals and articles.

Data Analysis

Data analysis is all about analysing the data in a good way and validity is concerned with the research results and how correct they are. How strong a claim a study can make that the results of the research are applicable beyond the study itself is dependent on the strength of the study's external validity. This collected data from the questionnaire is statistical analysed.

Result And Discussion

The sample size for this research is 76 people which consist of both male and female between the age group of less than 25 to above 50.

Section A: Demographic

Age is a very important factor as it helps the researcher to know about its respondents. Table 1 tabulated less than 25 years were 13, while between the age of 25-35 there were 28, between the age group of 35-45 there were 21 and above 50 there were 14 respondents. This shows a good mix of respondents needed for this research. It is important to have a mix of both genders so that the researcher can get a better idea. Table 1 shows there are 39 males and 37

females and this is a good blend of both genders as to get the responses so that the answers are not biased. Table 1 shows around 29 were single while 47 were married and this shows that married people are more interested in taking loans from banks and selecting the criteria Table 1 shows the highest education of the respondents, about 5 respondents were of high school level, 9 were holding diploma, 38 had a bachelor degree, 17 had a master’s degree and only 7 had a PHD degree.

Based on the occupational level of the respondents in Table 1, around 14 were there for administrative support, 19 for management, 8 were professionals, 10 were senior management while 25 were others. The level of income is important also to know as this is one of the criteria that define the selection of the Islamic home financing as it helps with the application. From Table 1, there were 16 respondents who were in the range of 3000-5000 SAR, 22 in the range of 5000-10,000 SAR, 19 in the range of 20,000-50,000 SAR while only 2 in the range of 100,000 SAR. This shows that the needs for home financing are needed due to the low level of monthly income as not everyone can afford it.

Table 1: Demographic of the respondents

Criteria	Category	Frequency (n)	Percentage (%)
Age	Less than 25	13	17.11
	25-35	28	36.84
	35-45	21	27.63
	45 and above	14	18.42
Gender	Male	39	51.32
	Female	37	48.68
Marital Status	Single	29	38.16
	Married	47	61.84
Highest Education	High School	5	6.58
	Diploma	9	11.84
	Bachelor Degree	38	50
	Master Degree	17	22.37
	PHD Degree	7	9.21
Occupation	Administrative	14	18.42
	Management	19	25
	Professionals	8	10.53
	Senior Management	10	13.16
	Others	25	32.89
Income (SAR)	3000-5000	16	21.05
	5000-10000	22	28.95
	10000-20000	17	22.37
	20000-50000	19	25
	More than 50000	2	2.63

Section B: Selection Criteria

Figure 1 shows that around 7.89% respondents only strongly disagreed while only 2.63% disagreed. 14.47% were neutral on this selection criterion while only 25% agreed and the highest was 50% that strongly agreed. It shows that people really focus on *Shariah* Principle and feel that it is one of the important criteria.

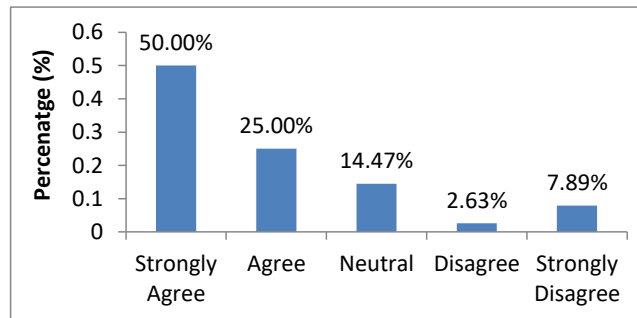


Figure 1: Respondent’s opinion regarding *Shariah* Principle

Figure 2 shows that only 7.89% respondents strongly disagreed, while 23.68% disagreed with these questions. Around 31.58% were neutral about it while 26.32% agreed and 10.53% strongly agreed. This shows that the majority of people believe that offering lower monthly payment is not necessary as criteria.

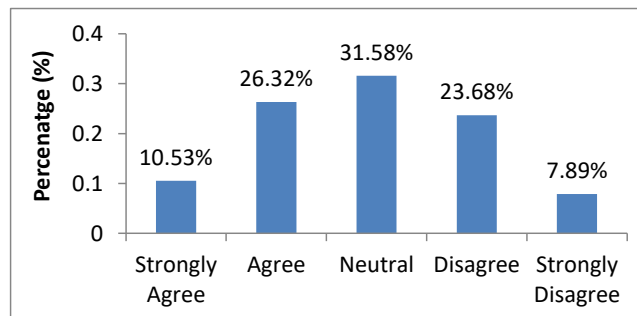


Figure 2: Respondent’s opinion regarding offering lower monthly payment

Figure 3 shows none of the respondents strongly disagreed, while 6.58% disagreed with this question. Around 18.42% were neutral about it while 30.26% agreed and 44.74% strongly agreed. This shows that the majority of people believe that Islamic banks gives 100% financing option as a criteria and it is good.

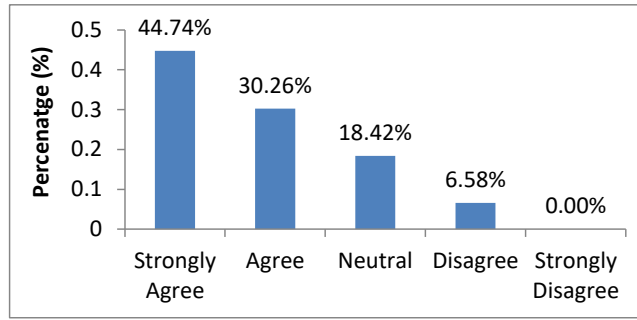


Figure 3: Respondent’s opinion regarding Islamic banks gives 100% financing option

For many people having a good location is important. Based on Figure 4, only 3.95% of the respondents strongly disagreed, while 6.58% disagreed with this question. Around 36.84% were neutral about it while 26.32% agreed and 26.32% strongly agreed. This shows that the majority of people believe that convenient location close to my work place or home

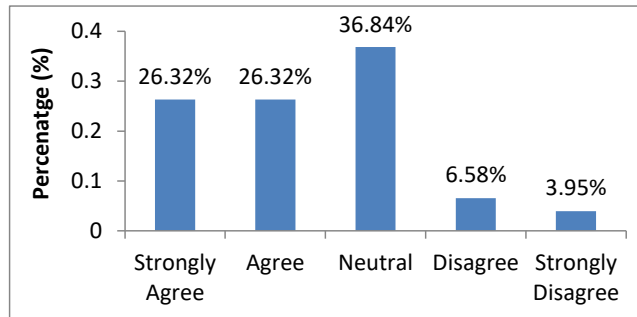


Figure 4: Respondent’s opinion regarding convenient location close to their work place or home

For many people having a higher quality of service is important. Based on Figure 5, only 1.32% of the respondents have strongly disagreed, while 6.58% disagreed with this question. Around 17.11% were neutral about it while 34.21% agreed and 40.79% strongly agreed. This shows that the majority of people believe that good quality service is really important.

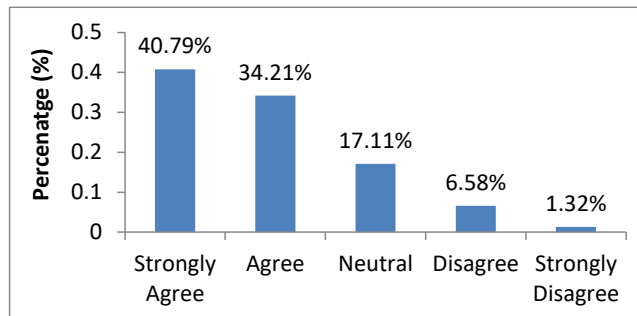


Figure 5: Respondent’s opinion regarding offering higher quality service

For many people to have less approval time is important. Based on Figure 6, about 5.26% of the respondents have strongly disagreed, while 5.26% disagreed with this question. Around 30.26% were neutral about it while 21.05% agreed and 38.16% strongly agreed. This shows that the majority of people believe that taking less approval time is important for them.

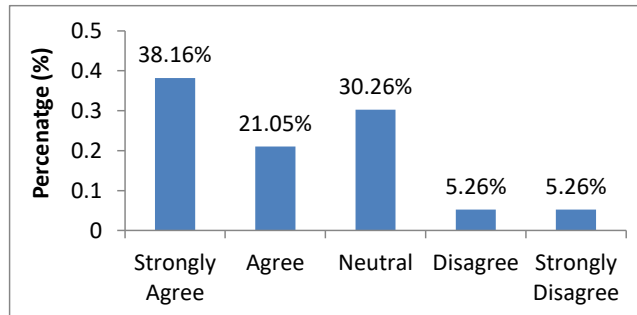


Figure 6: Respondent’s opinion regarding they take lesser approval time

For many people good reputation and image of the bank is crucial. Based on Figure 7, none of the respondents has strongly disagreed, while 3.95% disagreed with this question. Around 15.79% were neutral about it while 39.47% agreed and 40.79% strongly agreed. This shows that the majority of people believe that good reputation is an important criterion.

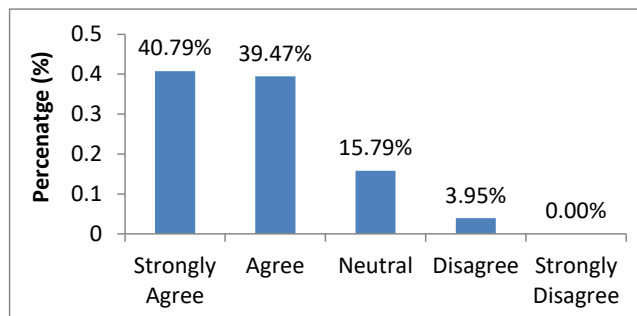


Figure 7: Respondent’s opinion regarding good reputation and image of the bank

For many people having the ease of quick approval and processing of application is important. Based on Figure 8, only 1.32% of the respondents have strongly disagreed, while 2.63% disagreed with this question. Around 26.32% were neutral about it while 31.58% agreed and 38.16% strongly agreed. This shows that the majority of people believe that very quick approval and processing of the application is important.

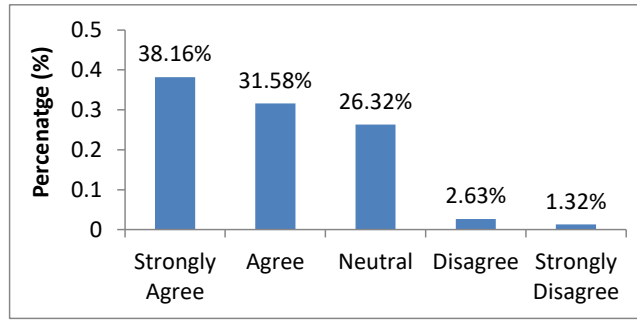


Figure 8: Respondent’s opinion regarding very quick approval and processing of the application

For many people having a good product range is important. Based on Figure 9, only 2.63% of the respondents have strongly disagreed, while 10.53% disagreed with this question. Around 11.84% were neutral about it while 38.16% agreed and 36.84% strongly agreed. This shows that the majority of people believe that good product range is really important.

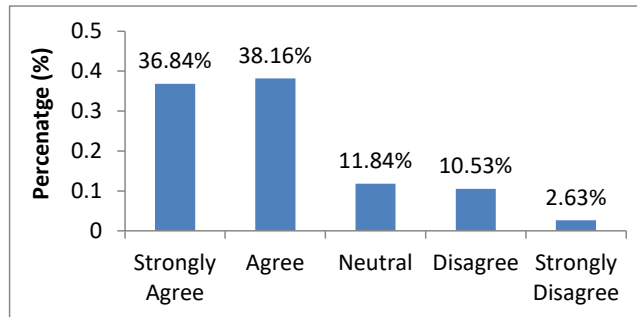


Figure 9: Respondent’s opinion regarding having very good product range

For many people the recommendation is crucial. Based on Figure 10, only 3.95% of the respondents strongly disagreed, while 6.58% disagreed with this question. Around 31.58% were neutral about it while 27.63% agreed and 30.26% strongly agreed. This shows that the majority of people believe that recommendation is good while selecting

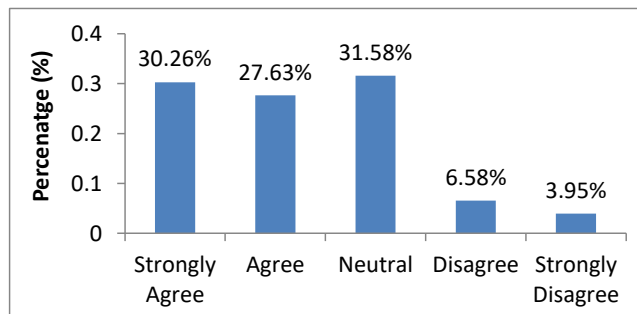


Figure 10: Respondent’s opinion regarding having very good product range

CONCLUSION

The obtained result show that majority of the respondents strongly agree with the *Shariah* Principle, 100% financing option, high quality service. The bank also should have a good reputation, efficient service quality and product range. It can be recommended that the choice criteria for Islamic banking that the most important criteria considered by customers in patronising Islamic banks are the provision of fast and efficient services, the bank's reputation and image and confidentiality. This focuses on customers' satisfaction which mainly focused on the bank's name, image, confidentiality and reputation. Indeed, provision of fast and efficient services are always regarded as high-quality services by bank customers who value time and expect the transaction to be completed as quickly as possible. Therefore, it is argued here that in order to survive, Islamic banks should not rely on religious factor alone since other factors as stated earlier are also important.

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Paper ID	Position , Full Name, Working unit & nation	Email address	Research Interests	Personal website (if any)
	Reem Mushabbab Al-Otaibi Student	rmalotaibi@effat.edu.sa	Business	
	JAMALALDEEN FALEEL, LECTURER	jfaleel@effatuniversity.edu.sa	Business	