

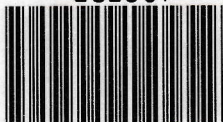
CONSUMER FINANCING: A STUDY ON THE
PERCEPTION OF EDUCATION OFFICERS
TOWARDS INTEREST-FREE FINANCING

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ABSTRACT

The purpose of the study was to investigate the perceptions of education officers towards interest-free financing. By using Factor Analysis, the study has examined the perceptions of education officers and was able to extract and identify 13 factors that may explain the behavior of education officers involved in credit financing. The factors centered on the elements of interest-free financing and the respondents' level of understanding of the concepts involved. Sixty respondents comprising of 60 Muslim education officers were selected to participate in the study. The group is made up of 13 teachers and 47 officers working within the Ministry of Education. The mean scores for every factor was computed. The mean score for Factor 1 is 3.8354. This shows that generally the respondents have a fair degree of understanding of the IFCS concept. The mean score for Factor 2 is 2.7792. This shows the education officers are relatively not sure of the interest-free financing concept. However, it was also found that education officers have a high level of understanding of the purpose of the IFCS (Factor 3). Respondents also indicated that they find it more convenient to purchase items on interest-based terms. The officers showed a mean score of 3.7333 for Factor 5, which measures their agreement that interest is exploitation of customers. However, it was disturbing to see that the respondents scored 3.4750 to the statements that interest is paid because it is legal and that IFCS should go for lower profit. The respondents agreed that IBCS is more accessible to them compared to interest-free credit schemes. The respondents relatively agree that *riba* is the interest charged by chettiahs and loan sharks (3.6750). For Factor 9, the mean score was 2.5583 indicating that respondents are unsure of the statements in Factor 9. Factor 10 also looks at the misconception of *riba*. At a mean score of 3.6333, it shows that the respondents do not really understand the *riba* concept. The score also indicated that they agree with the contention that *riba* is exceedingly high interest and any profit made illegally. The mean score for Factor 1 shows that the respondents agree that measures should be taken to expose customers to Islamic financing. Customers should be made aware of the interest-free products in the market. The mean score for Factor 12 shows that the respondents are rather unsure of the fact that banks and Islamic financing schemes both charges interest on customers. The mean score of 3.1489 shows quite a high level of misconception of the concept. The education officers also show agreement that interest is something that is necessary and not a burden to customers. A mean score of 3.2250 gives rise to the need to address the issue. Education officers, especially teachers need to really understand the concepts in Islamic financing since they are the change agents for the future. They need to prepare the present generation with the pillars and concepts of Islamic financing for the future.

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

It is a cardinal belief of Muslims the world over that Islam provides a complete set of guidelines for organizing human activity in all spheres of life. The basic Islamic precepts of organizing the economic side of life, if put into practice, give rise to an economic system which has an individuality of its own with its main characteristics manifestly different from both the capitalist and socialist forms of economic organization. One of these basic precepts is that all financial transactions based on giving or taking of interest should be avoided. In fact, interest-based transactions are most severely condemned and those who engage in these transactions are warned of severe chastisement in the Hereafter (Ziauddin, 1995).

It is a fact of life that despite the severe condemnation of interest in Islam, Muslim societies are unable to keep away from interest-based transactions when modern banks appeared on the scene. This is also true in the financing of household purchases involving items such as the television, refrigerator, sofas, bedroom set, computers, mini hi-fi, home cinema, gas cookers and other household appliances. Consumers cannot avoid than to indulge in these interest-based financing since most of them could not buy goods on cash terms.

1.1 Statement of the Problem

Nowadays, very few people can afford to buy household items in cash. Even though some may afford to buy these household items on cash basis, they prefer to buy the items on credit through installment payments or hire purchase. Normally, a finance company or a bank with which the retailer has business relationships would finance the purchase. For example, if the item were sold for RM 5000 cash, the hire purchase or credit price would be the RM 5000 plus some additional interest rate. Economists say that the difference in price is the opportunity cost forgone by the bank, which is compensated by the purchaser in a form of interest payment.

Interest-free credit schemes have been introduced to cater for the increasing awareness on the part of the government on the need to provide interest-free financing to Muslims in Malaysia. More and more customers are asking whether retailers can provide an interest-free credit scheme for household purchases. Retail outlets such as Jaya Jusco, Courts Mammoth, Catalogue Shop, cooperatives and other retail-based organizations offer normal interest-based facilities to their customers. Fortunately, there are some outlets such as Arastu and Teacher Cooperatives that offer interest-free credit schemes to their customers throughout Malaysia. Islamic banking offers two financial products as alternatives to interest-based installment schemes. Based on the *Murabahah* and *Bai-bithaman-ajil* or *bay'muajjal* contracts, Islamic installment schemes provide a direct line of credit sale

without involving a third party. Thus, when a person purchases a computer system through *Murabahah* and *Bai-bithaman-ajil* facilities, only two parties are involved in the transaction, the seller (retailer) and the purchaser. In a conventional interest-based trading, a complete transaction would involve the retailer, the customer and also the bank that acts as the financier. This is what some retail outlets provide to their customers who may not be comfortable in making interest payments for the purchase of the goods they wanted.

But today more and more people are asking whether present interest-free products deserve to be called Islamic since they are not benefiting from the products except for it being a *halal* transaction. They bought the same object desired and pay approximately the same amount of money.

The question now would be whether consumers are aware of the presently available interest-free credit schemes. Would they go for products, which are interest-based or, interest-free? Are consumers aware of the fact that interest is haram in Islam? Why are not they supporting the interest-free credit schemes? Are they able to differentiate whether a scheme is interest-based or interest-free? Does it matter to them whether they purchase goods on interest-based or interest-free credit?