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Islamic home financing in Pakistan: A SEM based approach using modified TPB model.

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(Preliminary Draft)

Abstract

The present study attempts to examine the Islamic home financing using the modified theory of planned behavior model (TPB). A sample data of 375 is conveniently drawn from walk-in customers of Islamic banks located in the biggest city Karachi. This study employed both exploratory factor analysis (EFA) and confirmatory factor analysis (CFA) to confirm the validity and reliability of the measurement model. The modified theoretical framework was examined by applying the structural equation modelling (SEM) using frequently reported goodness-of-fit indices. The findings indicate that the original constructs of TPB model, attitude (ATT), subjective norm (SN) and perceived behavioral control has a positive and significant impact on the customer intention to use Islamic home financing. Furthermore, ATT is found to be the most influential factor in determining the customer intention towards Islamic home financing. On the other hand, we introduced two new factors, pricing on home financing (PHF) and religious belief (RB), which proved their presence in the TPB model by showing a significant impact on the customer intention to use the facility of home financing. In addition, PHF has a negative impact while religious belief has a positive relationship with the customer intention to use Islamic home financing in Pakistan. This study also suggests that the standard TPB model is successfully modified by introducing PHF and RB factors. Therefore, Islamic bank managers should consider this study to promote the Islamic home financing facility in Pakistan.

Key words: Islamic banks, home financing, customer intention, Sharia, Pakistan.

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Introduction

The acceptance of Islamic banking industry amongst the Pakistani customers have set a dimension of Islamic banks to introduce new Islamic banking products. In this sense, Islamic home financing can play a vital role in the development and the growth of Islamic banking industry. It follows strict Sharia rules which makes it more considerable for Muslim customers. Islamic home financing excludes uncertainty (gharar), interest (riba) and other elements that are restricted by Islamic principles. In the same vein, conventional home financing is based on an interest rate which is prohibited by the Quran (the holy book) and against the Islamic business concepts (Haron and Shanmugam, 2001). The interest rate creates social injustice in the society while Islamic home financing offers Sharia compliance services to their customers. In addition, Islamic home financing services are based on the principles of musharakah-mutanaqisah, bay bithaman-ajil and ijarahmuntahiyahbittamlik. These products are in line with Islamic laws governed by Sharia. However, these products vary from one bank to another bank due to the bank's policy.

Globally, Islamic banking has gained more attention of Muslim customers. The reason is that, Islamic banking industry progress well at a time of financial crisis when conventional banks were declining (Hamid and Masood, 2011). In the Middle East and Asia, Islamic banks provide a wide range of Sharia compliant products for Muslim investors (Newell and Osmadi, 2009). However, Islamic bank remains concentrated in Iran, Malaysia, UAE, Saudi Arabia, Qatar, Middle East, Bahrain and Kuwait (The City UK, 2012). Country like Malaysia, real estate markets is considered as the most transparent market in the context of Sharia compliant (Newell and Osmadi, 2009). On the same token, investors seek Malaysia for Sharia compliant investment (Ibrahim et.al. 2009). In recent times, Amin et.al. (2014) argued that Islamic banks categorized its home financing product as a source of competitive advantage in the context of profitability.

Concerned with the Pakistan, regulators are engaged to attract more investors in property markets by employing low interest rates, transparency in the land records and development of the mortgage market in the country. The mortgage rate in Pakistan ranging from 18 – 18 percent in

contrast with other countries, such as, Japan 2.7 percent, 8 – 12 percent India and China 7 – 8 percent (Dawn economics and Business, 2015). This report further revealed that the house financing to GDP growth ratio is quite low in Pakistan, but the regulators are expecting more investment in the property market from overseas Pakistanis for the upcoming tenures. In addition, 16 billion dollars of remittances in Pakistan have been reported in the previous financial year, whereas around 3 billion dollars of amount directly injected into property market of Pakistan.

Previously, many studies have been conducted on customer preferences for Islamic home financing (Amin et.al. 2009; Amin, 2008; Jalilet.al. 2010; Ford and Jones, 2001; Lymperopouloset.al. 2006; Devlin, 2002a, 2002b; Hamid and Masood, 2011). These studies have proposed various determinants of consumer preferences to adopt an Islamic home financing such as service quality, religion, profit, location, lifestyle, knowledge about Islamic banking product and some demographic elements. Furthermore, a work by Thean (2009) argued that the customer prefers conventional home financing rather than Islamic home financing due to attractive pricing offered by conventional banks. Previous empirical researches also suggest that Islamic bank customers understand the benefits of Islamic home financing, such as, religion benefits, and financial benefits, but, their intentions to adopt an Islamic home financing is mainly associated with Sharia compliant products, social influence and financial cost (Wan-Ahmad et.al., 2008). This fact is further supported by Hamid and Masood (2011), argued that, pricing on home financing, Sharia principles and bank reputation are the key determinants of Islamic home financing.

Many researchers contributed their research work in the context of Islamic home financing, but their outcome leads mixed results (Razak and Abduh, 2012; Amin, 2008; Thean, 2009; KFH research, 2010). In recent times, Amin et.al. (2014) finds subjective norm, attitude and perceived control behavior is the key determinants to explain consumer intentions towards Islamic mortgages. In view of the above arguments, consumer intentions on Islamic home financing have raised a problem to identify the actual determinants of Islamic home financing. Amin et.al., (2014) support this fact, argued that, different factors produce conflicting results which in turn raised the importance of Islamic home financing research. In Pakistan, limited empirical work is available in determining the factors that influence Islamic home financing. To

the best of author's knowledge, no such study has been conducted in Pakistan to determine the factors affecting consumer intentions towards Islamic home financing service. To handle this research gap, the present study is an attempt to provide a new insight on the consumer level towards Islamic home financing in Pakistan. The need of the current study is due to provide a competitive advantage to Islamic banks as Muslims somehow still prefer conventional home financing rather than Islamic home financing (Thean, 2009). Concerned about this argument, it is necessary to highlight those factors that may contribute in consumer intentions to use Islamic home financing facility. In this sense, the theory of planned behavior (TPB) is used as a baseline theory in the study. Furthermore, we have integrated religious belief and pricing on Islamic home financing factors within the TPB framework in order to examine the intentions of Pakistan Islamic bank consumers towards Islamic home financing.

This study mainly contributes to the theoretical development of Islamic home financing literature. This fact also supported by Amin et.al. (2014), argued that, it is necessary now days to determine the factors that explain the acceptance of Islamic bank consumer on Islamic home financing product. Despite this, Islamic bank managers and policy makers are the direct beneficiaries of this study. In addition, this study also assists Sharia scholars to develop meaningful and effective strategies in order to attract more consumers towards Islamic home financing.

Theoretical background

This study uses a framework of TPB model. The consumer intentions towards Islamic home financing facility is explained by TPB model. The argument behind the selection of TPB model is that, past studies have successfully applied the TPB model to explain consumer intentions (Hasnenet.al. 2004; Lobbet.al. 2007; Gopi and Ramayah, 2007; Amin et.al. 2014). But, these studies have provided little empirical evidence to explain the consumer intentions towards Islamic banking product. Based on this explanation, the authors of this study has motivated to conduct a research and proposed a model that describe the consumer intentions using Islamic home financing product.

What is TPB model?

The theory of planned behavior (TPB) model was first introduced by Ajzen (1991) which is an extension of another theory, namely, the theory of reasoned action TRA (Fishbein and Ajzen, 1975; Ajzen and Fishbein, 1980). Ajzen (1991) further proposed TPB model in response of the TRA model limitations. TPB theory is mainly linked with one's belief and behavior while it increases the predictive power of the TRA model by integrating a new factor of perceived behavioral control in the model (Ajzen, 1991). More precisely, TPB model is composed of subjective norm, attitude and the perceived behavioral control of an individual. The perceived behavioral control was introduced to fill the gap of TRA model (Ajzen, 1991, 2002).

Why TPB model?

The theory of planned behavior (TPB) provides a better predictive power of an individual on Islamic banking products (Amin et al. 2014). It is a due fact that the TRA model provides only two constructs, namely, subjective norm and attitude while TPB model includes additional construct of perceived behavioral control which strengthened the predictive power of an individual. In short, TPB model is an extension of the TRA model or the TRA model become TPB by integrating perceived behavioral construct in the model. Past empirical studies have documented the significance of perceived behavioral control in their studies (Mathieson, 1991; Hasnen et al., 2004; Lobb et al., 2007; Gopi and Ramayah, 2007; Amin et al., 2014). This construct of TPB is defined as the performing behavior of an individual due to perceived ease or difficulty with controlled behavior to attempt a particular action (Toe and Lee, 2010). In this sense, the predictive power of the TRA model has increased to determine the intentions of an individual's behavior. Linked to this argument, perceived behavioral control is more relevant for this study because the consumer has control over his behavior to take decision about Islamic home financing services (Amin et al. 2014). Not only this, testing TPB model for Islamic home financing context can propose a new strategy for Islamic banks and thus, set a new dimension for future researches.

In view of the above explanation, present study adopts TPB model instead of other theories such as, TRA model, Diffusion of innovation theory (DOI) and technology acceptance model (TAM). This argument is also supported by Amin et al. (2014) study of the consumer acceptance towards Islamic home financing. In fact, the DOI can be useful in consumer

acceptance model, but our objective is to test the TPB model for Islamic home financing. In addition, TAM model is designed for consumer intentions to use in the context of electronic usage, which is obviously considered as inappropriate for our research.

Literature

Financing concept in Islam

In general, Islam promotes the rotation of wealth from wealth holders to deficit units which helps in the development of Muslims socioeconomic welfare. Islamic financing has two main objectives. First, Islamic financing channelized wealth, resources from wealthy persons to deficit units. Second, it fulfills the human need and allows Muslims to grow their wealth (Kahf and Khan, 1992). Therefore, Islamic banks behave as financial intermediaries which receive wealth (deposits) from customers and channeling this wealth by giving financing to needy customers. In this study, we have considered Islamic home financing services as one of the financial products provided by Islamic banks. This implies that, Islamic banks offered home financing facility to the homebuyer, which in turn satisfy their wealth ownership need with Sharia compliant. It is necessary to note that, taking home financing facility from Islamic bank must be for those individuals who are in need of sheltering a home to himself and his family. In addition, carrying debts and liabilities is not acceptable in Islam. However, Islam discourages those individuals who take Islamic home financing for the purpose of investments. In short, Islamic home financing is based on real human needs rather than for extravagance.

Islamic bank financing: an overview

The Islamic bank offered a financing facility to those customers who are actually in need of financing. However, qualified customers are expected to face a certain risk, such as unemployment, flood, and earthquake which directly affect their income. This result leads them towards default and hence, themselves unable to pay their monthly payments. In this sense, Islamic banks are bound to understand the causes of default prior to imposed debt penalty. It is expected from Islamic banks to act justly and fairly with customers. But in case of non-payment, Islamic banks offered two alternatives. First, to extend the payment period, second, Islamic bank converts debt into charity. Amongst the two, converting loan in for charity is considered as the best option (Haron and Shanmugan, 2001). The Second option is more appropriate due to two

main reasons. First, debtor's discharge from debt liability through fair and transparent process and is inline with Sharia rules. Second, the Islamic bank ultimate objective of "true Islamic banking" is accomplished. Haron and Shanmugan (2001) further suggest that the Islamic bank should adopt customer support policies for those who are unable to pay back their loans. One study of Hanifa and Hudaib (2007) also support to the fact that the debtor must be treated as leniently under the guidelines of Sharia compared to conventional banks. In some cases, debtors are also eligible for *zakat* which decrease their debt burden. In addition, Islamic bank should provide a clear evidence of debt policy in their annual financial statements which surely guide Islamic bank customers to take decision for home financing (Haniffa and Hudaib, 2007).

What is Islamic home financing?

Islamic home financing is a facility provided by Islamic banks, which works under the Sharia principles (Amin, 2008; Haron, 2005). This facility ensures the elimination of *riba* (interest) and *gharar* (uncertainty). In conventional banks, home financing is secured by real property and follows a schedule of interest payments on the principal amount (Tse, 1997). But, Islamic banks are bound to ensure Sharia rules, thus, a flat rate is charged instead of interest amount (Amin, 2008). In this regards, monthly payments remain unchanged and the rate does not fluctuate even if the high inflation rate occurs. Concerned with the Islamic home financing, the mechanism explains that the Islamic bank customer specifies the house of his demand, whereas Islamic bank purchases the property/house for cash at a market price from the seller. Islamic bank then resells the purchased property/house to its client on an agreed ratio of percentage. The customer of Islamic bank is now liable to pay back the monthly installments (Maali et.al. 2006). The profit of Islamic bank is determined by the difference between the cost price and the selling price of the property. The acceptance and usefulness of this method of home financing are also supported by Rosly (1999). Another study of Olson and Zoubi (2008) argued that charging an interest amount under Islamic principles is prohibited due to its unfair distribution of wealth income in the society.

Empirical studies on home financing

In previous empirical studies on Islamic home financing, the investigation was not focused to measure the effect of subjective norm, attitude, perceived behavioral control, religious belief and pricing on Islamic home financing elements at the acceptable level of consumer

towards Islamic home financing services (Amin, 2008; Nayeem et.al., 2009; Hanaffi and Kasim, 2006; Taib et.al., 2008; Abdul-Razak et.al., 2008; Jalil et.al., 2010; Amin et.al., 2014). The description of these empirical research work is stated as below.

Nayeem et.al. (2009) investigated the conflict of interest on Islamic home financing in U.S. Study argued that U.S Islamic financial system composed of three Islamic banks and all three are different in terms of Islamic home financing models. Results revealed that Guidance Residential, LLC provides Islamic home loan facility on the basis of “declining Musharaka” while University Islamic financial corporation follows “Murabaha” and “ijarahwaiqtinaa” mode of Islamic home financing. In contrast, American finance house LARIBA uses above two models to provide Islamic home financing services. This study only provides a transaction model in the context of Islamic home financing in U.S rather than to suggest consumer acceptance towards Islamic home financing.

Amin (2008) conducted a survey on Islamic home financing services by using a quantitative research approach. The study collected a sample of 150 responses to examine the consumer preferences on Islamic home financing. Evidence is present in the study suggesting that consumer of Islamic home financing is mainly associated lower monthly income, interest free banking, Sharia principles and fair practices of Islamic banks. However, the study found less contribution from recommendation, branch location, product range and the financing period factors. This study somehow tried to propose a model for Islamic home financing selection criteria by consumers.

In the same vein, Hanaffi and Kasim (2006) study concludes the comparative analysis between “bay bithamanajil” and “Istisna” mode of Islamic home financing. Findings suggest that “bay bithamanajil” is appropriate in Islamic home financing for the newly build houses where as under construction houses assign appropriate for “istisna” mode of Islamic home financing. However, this study is a qualitative but an insight view for “bay bithamanajil” and “istisna” is proposed to better understand the Islamic home financing services.

Md-Taib et.al. (2008) examined the determinants of diminishing partnership in the context of consumer acceptance towards Islamic home financing. This study adopts the TRA model rather than TPB model and uses convenience sampling. Results suggest that attitude is

found to be a key factor towards Islamic home financing while social influence and religious belief are the important determinants of consumer intentions in home financing product.

On the same token, Abdul-Razaket.al.(2008) uses “bay bithamanajil” concept to determine the consumer intention on Islamic home financing. On the basis of 300 responses, study report that consumer acceptance level was very low to adopt “bay bithamanajil” mode of home financing. In addition, the Muslim customer is only concerned with the features of “bay bithamanajil” due to its Sharia compliant whereas non-Muslim customers showed positive linkage with this mode of home financing. Although, this study provides an interesting view of consumer intentions towards Islamic home financing, but yet no theoretical framework can be concluded. One study of Jalil et.al. (2010) examined the consumer selection criteria of conventional and Islamic home financing in Malaysia. The study report that Banking Berhad customers are concerned with the benefits and features of Islamic home financing. This study also do not explain any theoretical framework which truly represents consumer intentions level of Islamic home financing.

Hamid and Masood (2011) presented their work on the consumer selection criteria for Islamic home financing and uses number of independent variables. Based on the responses of 200 Islamic bank customers, they found the price, Sharia rules, product flexibility, bank reputation, fast service and the product terms and conditions are the most significant factors of consumer acceptance of the Islamic home mortgage facility. But this study fails to test any theoretical framework such as TRA model, TPB model, which later in this study follows.

More recently, Amin et.al. (2014) provides a ground to examine the consumer acceptance towards Islamic home financing in the context of a theoretical framework. Their findings were based on 278 responses under the TPB model. Results indicate that all constructs of TPB model are significantly associated with the consumer acceptance on Islamic home financing. In addition, they found less contribution from demographic factors in consumer acceptance level.

In view of the above studies, different methods, variables and objectives are associated with these empirical researches. However, these research works demonstrate the interest to examine the consumer intentions to use towards Islamic home financing. Yet, home financing in the context of Islamic banking product still inconclusive and requires further investigation.

<Insert fig-1 here>

Hypothesis development

Based on past empirical studies, the development of the hypothesis in our study is as follows;

Perceived behavioral control: In TPB model, the individual behavioral control is represented by the perceived behavioral control. This construct was introduced to fill the gap lies in the TRA model (Ajzen and Fishben, 1980; Fishbein and Ajzen, 1975). The other purpose of this construct is to answer the situation where an individual is lacking with willingness control over the actual behavior (Ajzen, 2002, 1991). It is further defined as, in the absence or presence of the mandatory opportunities and resources, the perception of an individual to perform a certain behavior (Ajzen, 1991). Overall, there exist a correlation among an individual behavior and its confidence to perform a particular behavior. PBC is a part of two things. First, through an individual's past experience, second, already used information based on friends, family or any other external factors that may control his/her perceived difficulty level in order to perform a behavior (Ajzen, 1991). Therefore, an increment in the opportunity and resources for an individual by the Islamic bank, the greater behavioral control of an individual may occur which further increase the chances of performing a behavior of interest, in the case of Islamic home financing. Past studies report that an individual's intentions are mainly associated with perceived behavior and a significant positive relationship exist between them (Shih and Fang, 2004; Lee and Ho, 2002; Mathieson, 1991; May, 2005; Yulihhasri, 2004; Taylor and Todd, 1995; Ing-Long and Jian-Liang, 2005; Jen-Ruei et.al., 2006; Amin et.al., 2014). Thus, given the opportunities and resources to an individual, the chances of his/her confidence increases, which lead towards performing a behavior to use Islamic home financing facility. Hence, our formulated hypotheses are as follows:

H1: Perceived behavioral control has a positive impact on the intention to use Islamic home financing.

Attitude: The future intentions of an individual towards a particular object or behavioral intentions are mostly evaluated using attitude construct that lead his/her intention to perform a certain behavior of interest (Gopi and Ramayah, 2007). One can evaluate the effectiveness of an

individuals' positive or negative feeling in performing or accepting a behavior act (Fishben and Ajzen, 1975). The most appropriate and recent explanation of the attitude is the consumer intentions to use are mainly evaluated by an individual under the influence of his/her favorable or unfavorable attitude (Ajzen and Fishben, 2000). In the context of Islamic home financing, the performance and intentions level of an individual towards a certain object is due to a positive attitude. Therefore, past empirical studies have also supported to this argument and signifies that the attitude has positive and significant effect towards the intentions of an individual to use the product (Taylor and Todd, 1995; Davis et.al., 1989; Shih and Fang, 2004; Ramayah et.al., 2005; Ali and Raza, 2015a, 2015b; Mathieson, 1991; Ramayah and Suki, 2006; Rhodes and Courneya, 2003; Lu et.al., 2003; Ramayah et.al., 2003; Ing-Long and Jiang-Liang, 2005; Maruf t.al., 2003). Thus, our proposed hypotheses are:

H2: Attitude has a positive impact on the intention to use Islamic home financing.

Subjective norm: In the TRA model, the subjective norm is an essential and original construct that deals with social pressure or social influence over an individual perception and thus on intentions towards a particular object (Fishben and Ajzen, 1975). More precisely, the individuals or potential referent groups influence over a person to approve or disapprove to perform a particular behavior of interest (Ajzen, 1991; Fishben and Ajzen, 1975). Subjective norm is considered as a direct measure in TRA and TPB model. It is expected, as the positive and significant social pressure and social influence on an individual may allow to perform a certain behavior which leads to increase the intention to use or accept a particular object. The individual may not have intention to perform a particular behavior, but under the influence of social pressure, the intentions become an obvious (Venkatesh and Davis, 2000). In past studies, subjective norm has shown mixed results. Some of the empirical literature argued that the subjective norm has an insignificant impact on the intention to use (Ali et.al., 2015; Chau and Hu, 2001; Davis et.al., 1989; Lewis et.al., 2003; Mathieson, 1991) while the significant impact of subjective norm on individual intentions are suggested by (Yulihastri, 2004; Jen-Ruei et.al., 2006; Ali and Raza, 2015; Taylor and Todd, 1995; May, 2005; Teo and Pok, 2003; Venkatesh and Davis, 2000; Chan and Lu, 2004; Ma'ruf et.al., 2003; Ramayah et.al., 2003). Overall, most of the past studies have argued that subjective norm has significant impact on one's intention. Therefore, based on the previous literature, our proposed research hypothesis is as follows:

H3: Subjective norm has a positive impact on the intention to use Islamic home financing.

Religious belief: In this research, we have introduced “religious belief” as a new construct in the context of Islamic home financing. This construct is considered as an essential one due to the islamicity of the product. It can be defined as, one’s perception that Islamic home financing product follows *sharia* guidelines and is purely free from interest (*riba*), uncertainty (*gharar*) and other illegal elements that prohibits by Islam. More precisely, this research explains religious belief that Islamic home financing is referred to as the halalness of Islamic banking product. In the past, very few and limited research work was available using religious belief in the context of Islamic banking product (Amin et.al. 2014; Khan, 2010; Ali et.al. 2015; Muneezaet.al. 2011; Kazi and Halabi, 2006). But, no one has used religious belief in determining customer intention to use Islamic home financing. On the same token, previous empirical studies report that the religious belief is significantly associated with Islamic banks (Ahmad and Haroon, 2002; Omer, 1992; Amin et.al., 2014). Thus, the authors understand the importance of this construct under the shadow of Prophet Muhammad’s connotation “the Prophet conveyed a clear message that anybusiness transaction has to be open and transparent and shall not disadvantage theconsumer”. Hence, it is expected that the more religious belief is shown by a person on Islamic home financing product, the greater is the chances to accept Islamic home financing, thus more intention to use the product. Therefore, the proposed hypothesis is:

H4: Religious belief has a positive impact on the intention to use Islamic home financing.

Pricing on home financing: Likewise, religious belief, we have also included “pricing on Islamic home financing” to the TPB model. This construct is defined as, a price at which Islamic banks charged or sell Islamic home financing product (Ebert and Griffin, 1998). TheIslamic bank applies profit and loss sharing (PLS) method in financial transactions (Olson and Zoubi, 2008). In this manner, PLS method is permissible while the concept of interest (*riba*) is strictly prohibited by *sharia* rules. Under the certain conditions, Islamic banks also allow delayed payment charges on banking products (Ali et.al. 2015). In past literature, the pricing factor was found to be the most influential factor in the context of Islamic banking products, which leads to increase the intentions of customers towards Islamic banking products (Amin, 2008). In this sense, our study adopts pricing factor which signifies that, if the pricing on Islamic home

financing product is low, then there exist greater chances of customers to use the product (Amin et.al., 2008; Abdullah and Duski, 2006; Ali et.al., 2015; Rahman, 2005). Hence, our proposed hypothesis is as follows:

H5: Pricing has a negative impact on the intention to use Islamic home financing.

Measurement instrument

This study uses five constructs namely, perceived behavioral control, attitude, subjective norms, religious belief and the pricing on home financing to examine the customer intentions to use Islamic home financing facility. The items for these constructs are adapted from the past empirical studies. All questionnaire items were carefully modified and substituted in the context of Islamic home financing facility in Pakistan. The items were translated in English, while the market and academic expert confirm the questionnaire content validity. The items for attitude are adapted from Gopi and Ramayah (2007) and Compeau and Higgins (1995). Items for subjective norm, we used Gopi and Ramayah (2007) and Hansen et.al. (2004) study. Teo and Lee (2010) and Davis et.al.(1989) study was adapted for perceived behavioral control items. Additionally, we introduced two more, but relevant constructs namely, “religious belief” and “pricing on Islamic home financing” in the TPB model. These variables were included to contribute to the existing body of knowledge to use the Islamic home financing facility by consumers in Pakistan. For this reason, Wan-Ahmad et.al.(2008); Amin (2008) and Polat et.al. (2014) study were used to adapt the essential items for religious belief construct. In this variable, we carefully contextualized the concept of “compliance to sharia principles” and “no interest based transaction” are involved in Islamic home financing facility. On the other hand, the second constructs namely, “pricing on home financing” facility were also adapted to check the customer intention to use Islamic home financing in Pakistan. The items for this construct is adapted from Amin et.al. (2014) and Ali et.al. (2015) study.

The items of our research were developed in the form of a statement. We uses 5-point Likert scaling with “strongly disagree = 1” to “strongly agree = 5” for each item. The demographic factors were also included in the questionnaire which further provided an information about the respondents’ profile. Before conducting an actual survey, it is a due fact that a pilot testing should be done. Therefore, we conducted a pilot testing to check the validity and reliability of our research instrument. In this sense, a questionnaire was distributed among

the university faculty members who were expert in the field of research methodology along with the market experts. On the basis of pilot testing, it was concluded that all the questionnaire items are relevant and easy to understandable in the context of Islamic home financing facility in Pakistan.

Data collection process

The present study follows a questionnaire based survey method for data collection. In our research, we have targeted to those customers that have intentions in future to use Islamic home financing. This study is conducted in the biggest city of Pakistan, i.e. Karachi. The reason to collect the data from Karachi city is that, most of the Islamic banks head offices and sub offices are located in Karachi. In addition, this city has the biggest population, compared with any other city of Pakistan. The convenience sampling method is used to collect the data from customers because the authors faced limitations to access the actual Islamic bank customers. Moreover, this methodology is useful in conducting Islamic banking research and is supported by previous empirical studies (Ramayah et.al. 2003 and 2006; Amin, 2012; Ali and Raza, 2015a; Ali and Raza, 2015b; Amin et.al. 2014; Raza and Hanif, 2013). In addition, one study of Hultsch et.al. (2002) report that a sample taken from random sampling may not be a true representative sample of the population. This argument highlighted that the refusal rate among the approached individual may vary as all respondents are not necessarily will agree to participate in the research. Their study further pointed out that the convenience and random sampling have a similar pattern of relationship. Thus, a convenience sampling method for data collection in this study is appropriate and may proceed with statistical estimations.

To identify the sample size of our research, the guidelines provided by Comrey and Lee (1992) study were considered. Their study recommends that a sample size of 1000 as excellent, 500 as very good, 300 as good and 50 as poor. Thus, a total of 410 questionnaires were distributed among the respondents at Islamic bank branch offices specifically in banking hours to target the potential and actual Islamic bank customers. Of these, we found only 375 questionnaires were useable while 35 responses were ignored due to incomplete responses. Additionally, we assured that all the respondents of the study were treated as politely and were requested to participate in the research on voluntarily basis while the response and

information will be kept confidential. Overall, the response rate of our study is 91.46 percent, which is quite high and is appropriate for further analysis.

<Insert table I here>

The overall description of the respondents' profile is reported in table-I. In this table, there were 288 (77%) male respondents' while 87 (23%) were female respondents. During the survey period, we found most of the participants were single i.e. 231 (62%) whereas 144 (38%) participated as married. In addition, the majority of the respondents were between the age bracket of 31-40 (49%) followed by 20-30 (25%), 41-50 (18%), less than 20 were 19 (5%) and 50 and above respondents were 14 (3%).

Analysis and findings

Exploratory factor analysis (EFA)

Factor analysis is used as a data reduction technique which is also used to identify the loaded items that tapped on a same construct. It has the ability to narrow down a large sample of data into smaller one. Emory and Cooper (1991) argued that factor analysis can help researchers indetermining the belongings of the variables. In our case, we have applied principal component analysis in order to validate the construct validity of the items. A total no. of 26 items was loaded, whereas these items were split into six factors, namely, perceived behavioral control (PBC), attitude (ATT), pricing on home financing (PHF), subjective norm (SN), religious belief (RB) and intention to use Islamic home financing (ITU). In addition, the factor loadings for all items ranging from 0.55 to 0.84, which satisfy the minimum criteria of 0.30 for a sample of 350 or above (Hair et.al., 1998). Hence, table-II reported the results of factor analysis.

<Insert table-II here>

Total variance explained

The distribution of variance among the potential variables is explained by total variance explained. In addition, the measurement of variance explained is confirmed by Eigenvalues. However, the Eigenvalues for all factors must be equal to greater than 1.0. In our estimations, the total variance explained and Eigenvalues shows the appropriateness of the analysis. Thus, table-III depicts the test for variance explained and Eigenvalues for the sample data.

<Insert table-III here>

Kaiser–Meyer–Olkin and Bartlett’s tests of sampling adequacy

For the sampling adequacy of our study, we used KMO and Bartlett’s test of sphericity test values. In our case, the KMO value is 0.71 which satisfy the minimum criteria suggested by Kaiser (1974). According to the Kaiser (1974), the KMO value ranging from 0.70 to 0.79 is considered as good sample. In addition, the prob. value of Bartlett’e test of spericity is 0.000 (which is less than 0.05) indicating that the correlation between the items at the 5 percent level of significance is sufficient and is adequate for further analysis. The results of KMO and Brtlett’s test of sphericity is reported in table-IV.

<Insert table-IV here>

Reliability analysis

To test the internal consistency of the data, we used cronbach’s alpha value. Black (1999) study argued that the measure of the same things reliability is measured through reliability analysis using alpha value. One study of Nunnally (1978) further suggests that the data validation through reliability analysis is necessary. Therefore, based on the above discussion, we employed reliability analysis and our cronbach’s alpha value ranging from 0.62 to 0.82, which meets the minimum criteria of 0.60 proposed by Hair et.al. (1998). Hence, this test shows the appropriateness of the construct measures and our estimations can proceed with further analysis. The results for the test of reliability for all items is reported in table-V.

<Insert table-V here>

Confirmatory factor analysis

In structural equation modeling (SEM), the most direct and appropriate method is a confirmatory factor analysis (CFA). A statistical model is set by the researcher and how well the hypothesized model is predicted is then confirmed by SEM analysis. If the proposed model fits with the criteria set by SEM model indicators, then among the several different possible models, the proposed model is confirmed (Hair et.al. 2006). We use AMOS 21 to validate the dimensions of Islamic home financing using the standard factor loadings. In the CFA model, there were 26 items were loaded to best fit the sample data between observed and un-observed variables

(Byrne, 2013). The factor loadings in CFA model ranging from 0.56 to 0.95 for the Islamic home financing model. Moreover, the CFA analysis shows that each factor loading is more than 0.50 which established the construct validity and assure the convergent validity of the model (Hair et.al., 1998). For the measurement model, we report the goodness of fit test statistics. In table-VI, the GFI = 0.94; AGFI = 0.93; NFI = 0.86; CFI = 0.98; TLI = 0.98 and the RMSEA value is 0.01, which confirms that all the model fit measures of the measurement model achieved the minimum threshold level, hence, our measurement model for Islamic home financing is appropriate. Thus, the model fitness test results are reported in table-VI

<Insert table-VI here>

Structural equation modeling (SEM)

A structural model of customer intention to use Islamic home financing in Pakistan was applied to estimate the parameters. The study model uses five constructs namely, perceived behavioral control (PBC), attitude (ATT), pricing on home financing (PHF), subjective norm (SN) and religious belief (RB) to predict the intention to use (ITU) Islamic home financing. The reason to conduct the structure model is to test the TPB model in the presence of newly introduced two variables (pricing on Islamic home financing and religious belief).

Based on the research hypothesis, the research model results show that the overall model is acceptable under the goodness-of-fit test indicators as reported in table-VI. In this table, the GFI = 0.94; AGFI = 0.92; NFI = 0.85; CFI = 0.97; TLI = 0.97 and the RMSEA value is 0.02, which indicate that the values are within the range of recommended levels. In addition, Hair et.al. (2006) and Bentler (1990) suggest that CFI value should be close to 0.90 to accept the hypothesized model. Thus, our study model shows sufficient information of model fitness to the sample data. Hence, it can be concluded that our hypothesized model is an acceptable model can be considered a useful instrument to determine the customer intentions to use Islamic home financing.

The estimates for hypothesis relationship is explained by the standardized regression weights (SRW) as reported in table-VII. The findings from this table indicated that the β -value for PBC is 0.10 which is significant at the 5 percent level of significance. The β -value for ATT is 0.88 which represents the most influential factor of the study model at the 1 percent significance

level. As expected, the PHF is negatively associated with the intention to use Islamic home financing where its β -value is -0.03 at the 10 percent level of significance. Similarly, the β -value for SN and RB is 0.04 and 0.02, while both variables are significant at the 5 and 10 percent level of significance respectively. Overall, the selected factors, namely PBC, ATT, PHF, SN and RB have significant impact on the intention to use Islamic home financing. Hence our all research hypotheses are accepted.

<Insert table-VII here>

Discussion and Conclusion

The main purpose of this study is to determine the factors that affect the intentions of the customer to use Islamic home financing in Pakistan. For this reason, we conducted our research by applying the theory of planned behavior (TPB) as baseline theory which is further modified by introducing pricing and religious belief factors. To test the conceptual model framework, the study performed SEM based approach.

The results of the study indicate that all selected variables have appropriate reliability, whereas these factors are positive and significantly associated with the customer intentions to use Islamic home financing except pricing factor which is negative but significant. This study further highlight that all TPB constructs namely, attitude, subjective norm and perceived behavioral control has direct and significant impact on the intention to use Islamic home financing. On the other side, pricing on Islamic home financing has negative and significant impact while religious belief has a positive and significant impact on the intention to use Islamic home financing.

In the present study, we found attitude to be the most influential factor in determining the customer intention to use Islamic home financing. This means that attitude has an important and effective role to motivate one's intention to use (Gopi and Ramayah, 2007). It is further signifies that the favorable attitude may increase the chances of Islamic bank customer to use the product. The outcome of this study is inline with the past empirical findings (Taylor and Todd, 1995; Davis et.al., 1989; Shin and Fang, 2004; Ramayah et.al., 2005; Ali and Raza, 2015a, 2015b; Mathieson, 1991; Ramayah and Suki, 2006; Rhodes and Courneya, 003; Lu et.al., 2003; Ramayah et.al., 2003; Ing-Long and Jiang-Liang, 2005; Maruf t.al., 2003). Similarly, the second constructs of TPB model, i.e. subjective norm is considered as a factor that influence the

intention of the customer to use the Islamic home financing product. Our research result of subjective norm is consistent with past studies (Yuliharsi, 2004; Jen-Ruei et.al., 2006; Ali and Raza, 2015; Taylor and Todd, 1995; May, 2005; Teo and Pok, 2003; Venkatesh and Davis, 2000; Chan and Lu, 2004; Ma'ruf et.al., 2003; Ramayah et.al., 2003). The outcome of subjective norm highlighted that the intention of the Islamic bank customer, could be increased if the social network or the people important to the customer want him/her to use Islamic home financing product. However, in Pakistan, the Islamic bank customers are still unaware of Islamic home financing while the Islamic banks are lacking with the trained staff that should have proper knowledge of Islamic bank products. This incomplete information to the bank customer offers him/her to contact with trusted referent groups. Thus, the more social pressure and positive information, the more likelihood of customer to rely on referent group information, hence more the intention to use Islamic home financing. We also find perceived behavioral control as an antecedent of the Islamic bank customer to use Islamic home financing. This result occurs with previous empirical literature (Shih and Fang, 2004; Leo and Ho, 2002; Mathieson, 1991; May, 2005; Yuliharsi, 2004; Taylor and Todd, 1995; Ing-Long and Jian-Liang, 2005; Jen-Ruei et.al., 2006; Amin et.al., 2014). The argument over this outcome could be the resources and facilities for home financing provided by Islamic banks in Pakistan allow Islamic bank customers to feel like the product is easily accessible and within their control limits. Therefore, the intention to use Islamic home financing is increased under the high perceived behavioral control. Overall, it can be concluded that all the three main constructs of TPB model are considered as valid and relevant to predict the customer intention to use Islamic home financing.

Concern with the modified constructs of TPB model, the religious belief also found positive and significantly associated with intention to use Islamic home financing. We found past empirical studies in support of our findings (Amin et.al. 2014; Khan, 2010; Ali et.al., 2015; Muneeza et.al., 2011; Kazi and Halabi, 2006). The argument is that, Muslims consider religion as the principle motivation in the context of Islamic banking (Omer, 1992). On the same vein, Ahmad and Haroon (1992) suggest that customer religious belief over Islamic bank product plays important role in bank selection. Thus, the newly introduced variable shows its importance in our study and suggest that the customer intention may increase if their religious belief is stronger on Islamic home financing product. On the other side, the second modified variable, i.e. pricing on Islamic home financing has also proven its importance in predicting customer

intention to use. It is expected that charge more price on any product decrease customer intentions to use. In this study, we have found a negative relationship between pricing and customer intention to use Islamic home financing. The finding follows the past literature results (Amin et.al. 2008; Abdullah and Duski, 2006; Ali et.al. 2015; Rahman, 2005). Hence, the outcome suggests that the more charges on Islamic home financing product, the more likely to decrease customer intention to use the facility. In sum, it can be concluded that our newly introduced constructs proved their relevancy with customer intentions in the context of Islamic home financing. Not only this, our study has laid a foundation for future researchers to use these two variables in order to determine customer intentions for Islamic banking products. Hence, this study provides a new and significant dimension in the existing literature of Islamic banking products.

Managerial Implications

The ultimate beneficiary of this study is Islamic bank managers and the policy makers of Islamic banks. By using this study, they can decide to promote more effectively the Islamic home financing product. Furthermore, Islamic bank managers and policy makers need to apply better strategies and create an acceptable image of Islamic home financing product to better gain customer attitude as it vary from one customer to another which in turn increase their intention to use the product. Also, managers should consider the perceived behavioral control by motivating customer towards Islamic home financing product. This further requires to give clear guidance and some awareness program to bank customer so that they make their decision better towards Islamic home financing. As far as subjective norm concerns, Islamic bank should design a program for customers where Islamic bank representatives may interact with the customers so that they may gain customer intentions towards home financing product. These programs may arrange in the form of exhibitions or in shopping malls which results more customer intentions towards the product. With respect to pricing factor, Islamic bank managers must lower down financial charges and other pricing charges before they offer Islamic home financing product to the customer. This can be done by giving them fair pricing policy or some payment holiday options which in turn to increase their intentions to use the product. In the last, the Sharia advisory board should assist Islamic bank managers to gain customer confidence by giving assurance to the customer that Islamic home financing is purely Sharia compliance. They can

adopt some marketing strategies and awareness program of the Islamicity of Islamic home financing. In addition, the trained and product knowledge staff can be a supporting tool that may convince customers that Islamic home financing is purely Sharia compliance, which results in their religious belief may increase, hence more intentions to use Islamic home financing facility.

Research limitations

Although, our research has set a new dimension and provided a new findings in the context of customer intention to use Islamic home financing. Nevertheless, this study suffers some limitations. First, our study doesnot differentiate between existing customers and non-existing customers of Islamic home financing facility. The study collects the data to only those customers that are intended to use home financing facility from Islamic banks. Second, the respondents of this study are only from Karachi city on which the findings cannot be generalized. Third, the data collection was done in banking hours in which the chance of inaccuracy may arise in the data collection process.

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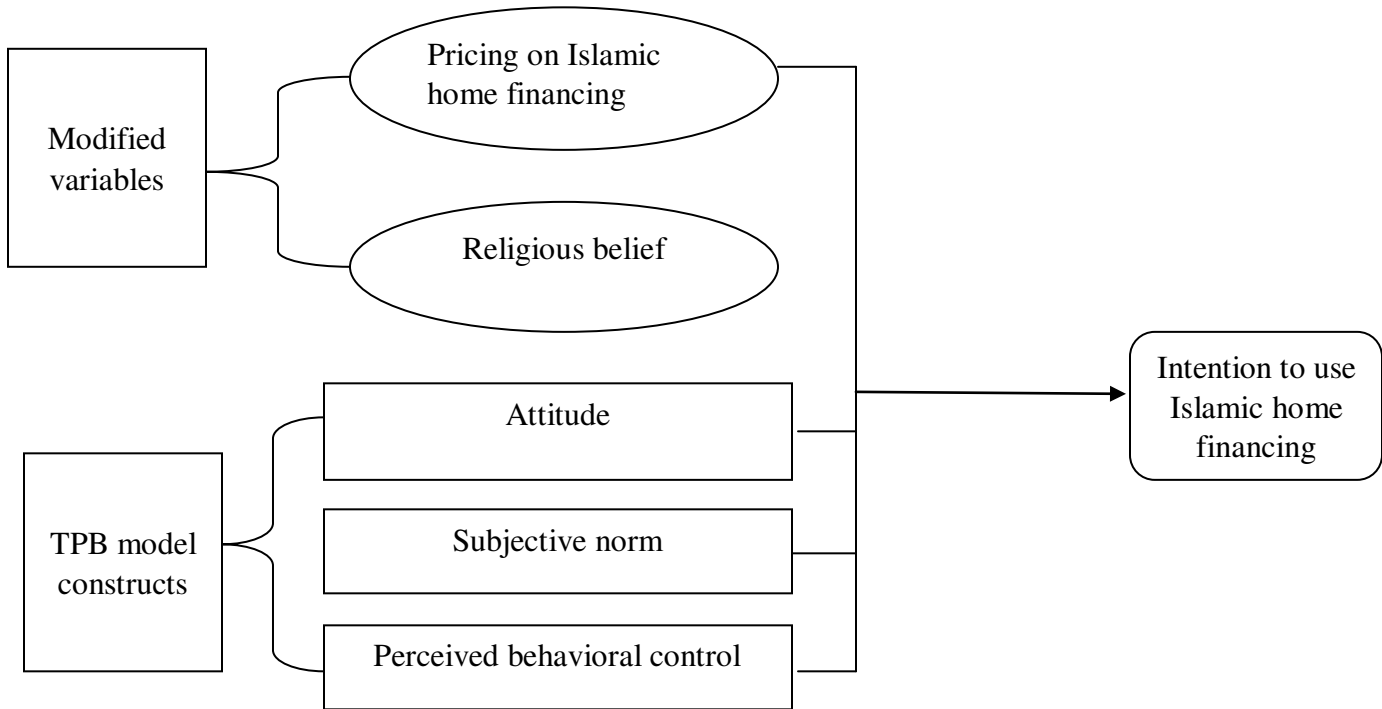
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Appendices

Fig-1 Conceptual model framework



Source: Author's construction

Table-I Profile of respondents

Demographic items	Frequency	Percentile
Gender		
Male	288	77%
Female	87	23%
Marital status		
Single	231	62%
Married	144	38%
Age		
Less than 20	19	5%
20 - 30	92	25%
31 - 40	183	49%
41 - 50	67	18%
50 and above	14	3%

Source: Author's estimation

Table II: Rotated component matrix						
Factor loadings						
Items	Perceived behavioral control	Attitude	Pricing on home financing	Subjective norm	Religious belief	Islamic home financing acceptance
PBC1	0.76					
PBC2	0.70					
PBC3	0.71					
PBC4	0.81					
PBC5	0.80					
ATT1		0.82				
ATT2		0.79				
ATT3		0.74				
ATT4		0.62				
ATT5		0.56				
PHF1			0.65			
PHF2			0.55			
PHF3			0.64			
PHF4			0.71			
PHF5			0.70			
SN1				0.64		
SN2				0.66		
SN3				0.74		
SN4				0.66		
RB1					0.65	
RB2					0.66	
RB3					0.73	
RB4					0.67	
IHFA1						0.72
IHFA2						0.84
IHFA3						0.71
<i>Source: Authors estimation</i>						

Table III: Results of variance explained

Items	(%)ATT	(%)SN	(%)PBC	(%)PHF	(%)RB	(%)ITU
Variance explained by each factor in percentage	11.395	10.067	8.349	7.535	7.451	6.961
Cumulative variance explained in percentage	11.395	21.462	29.811	37.347	44.796	51.756
Eigen values	3.161	2.558	2.114	1.978	1.892	1.755

Note: Extraction method: principal components analysis.

Source: Authors' estimation

Table- IV Results of KMO and Bartlett's test

KMO measure of sampling adequacy	0.71
Bartlett's test of sphericity approx chi-square	2108.900
Degree of freedom	325
Probability	0.000

Source: Authors estimation

Table- V- Results of reliability analysis

Variables	Items	Cronbach's alpha
PBC	5	0.82
ATT	5	0.76
PHF	5	0.66
SN	4	0.63
RB	4	0.62
ITU	3	0.64
Overall	26	0.63

Source: Authors estimation

Table-VI Model fitness

Goodness-of-fit measures	GFI	AGFI	NFI	CFI	TLI	RMSEA(PCLOSE)
Threshold values	≥ 0.85	≥ 0.80	Close to 1	≥ 0.90	Close to 1	≤ 0.05 (> 0.05)
Measurement model	0.941	0.932	0.861	0.981	0.983	0.017 (0.991)
Structural model	0.940	0.925	0.851	0.977	0.973	0.020 (0.989)

Notes: Measurement model- 26 items; Structural model- 26 items

Table-VII Standardized regression weights for the research model

Hypothesis	Variables	Regression Path	SRW	Remarks
H1	Perceived behavioral control	PBC ---> ITU	0.10**	Supported
H2	Attitude	ATT --->ITU	0.88***	Supported
H3	Pricing on home financing	PHF --->ITU	-0.03*	Supported
H4	Subjective norm	SN --->ITU	0.04**	Supported
H5	Religious belief	RB --->ITU	0.02*	Supported

Notes: SRW = Standardized regression weights

Dependent variable =Intention to use Islamic home financing (ITU)

****P<0.001, **P<0.05, *P<0.10*