Modelling *Ar-Rahnu* Use in Eastern Malaysia: Perspectives of *Muslimah*

Hanudin Amin[∗]

Abstract

Islamic women or Muslimah play pivotal role in promoting the development of ar-Rahnu transactions in Malaysia. As such, this current study is aimed at explaining the factors affecting Muslimah decision to utilise Islamic-based pawnshop in Eastern Malaysia. Employing structural equation modelling, this research examines the interaction between the factors and the Muslimah usage intentions for ar-Rahnu in Eastern Malaysia. To achieve this goal, the study used primary data collected by a survey with the help of a questionnaire administered through personal interviews. The study found out that religious obligation, transaction cost and information on ar-Rahnu were instrumental in determining the use of Islamic-based pawnshop in Eastern Malaysia. This result is of utmost importance for calling a better planning for Islamic-based pawnshop in the future in terms of Shariah adherence, reasonable cost charged and the awareness program. Yet, it is an inventive attempt by the author to highlight the interaction between the three factors and the Muslimah usage intentions for ar-Rahnu.

1. Introduction

The growth of Islamic banking and finance (IBF) industry in Malaysia has fabricated positive impacts toward the introduction of creative Islamic financial instruments, with the *ar-Rahnu* considers as the promising business currently available in Islamic banking institutions in Malaysia. It is typically available in Bank Rakyat and Bank Islam Malaysia Berhad (BIMB) whilst most of their clients are those women. By definition, *ar-Rahnu* is an Islamic transaction which provides a short-term financing to the public by allowing a customer to pawning his/her jewellery to banks or pawnshops as a security. It is one of the micro-credit and financial instruments for low income-earners who seek for financial assistance mainly to meet of their working capital needs. What is more, *ar-Rahnu* which is presently available in Malaysia supplies two distinct benefits for *Muslimah*. Firstly, it allows *Muslimah* to obtain quick cash for emergency and transaction purposes. Secondly, it avoids *Muslimah*

∗   Author, Hanudin Amin is a lecturer, Labuan School of International Business and Finance, Universiti Malaysia Sabah, e-mail = hanudin_zu@yahoo.com

from involving in loan-shark and interest-based loans. These merits, normally provide an indication that *ar-Rahnu* is a promising segment of Islamic financial transaction for women and should continuously be offered by Islamic financial institutions.

Conventional-based pawnshops in Labuan and Kota Kinabalu take up a large size of the market share of the pawnshops transactions. *Ar-Rahnu* is relatively new among *Muslimah* in these places when it is compared to its conventional counterpart. Despite the availability of the facility in Labuan, there is a potential indication that the facility has remained unnoticed by customers. As such, there is a need, therefore to examine the factors determining Malaysia *Muslimah* customers' intention to use the facility. To achieve this goal, this study utilises structural equation modelling (SEM) to find out what are factors leading to the use of *ar-Rahnu*. Prior research has limited investigated the relationship between SEM and *ar-Rahnu* (Sanusi & Johari, 2006; Mohammed *et al*., 2005; Ismail & Ahmad, 1997). Consequently, the present study is intended to void the research gap. This research is considered different for two reasons. Firstly, this study is first of its kind to utilise SEM in understanding the link between the patronage factors and the use of *ar-Rahnu* system in Labuan and Kota Kinabalu which is previously limited to investigate. Secondly, this study is first of its nature to employ women or *Muslimah* as respondents to satisfying the research objective. Considering *Muslimah* is due to the fact that most of the users of *ar-Rahnu* in Malaysia are women, owing to the link between jewellery as a product of women whilst it is *haram* for those men. Previous studies provide empirical supports for the assertion (Mohammed *et al*., 2005; Ismail & Ahmad, 1997).

The objective of this study is thus to examine the impacts of the religious obligation, information on *ar-Rahnu* and transaction cost on the use of *ar-Rahnu* facility in Labuan and Kota Kinabalu. It is anticipated that the first two variables are positively correlated with the use whilst the transaction cost is anticipated to have negative association with the use of *ar-Rahnu.*

2. Review of Literature and Hypotheses

2.1 Religious obligation

By definition, religious obligation refers to the role of religion in affecting one's choices and activities. According to Sulaiman (2003), Islamic society is affected by a distinct Islamic worldview based on *Shariah*. An Islamic bank needs to adhere to Islamic principles, values and goals when offering *ar-Rahnu* financing. This adherence by the bank can, in turn affect one's decision to seek *ar-Rahnu* financing. The greater the adherence to *Shariah*, the greater is the possibility of an individual using *ar-Rahnu* financing.

This argument is consistent with previous studies in the area of Islamic banking. Omer (1992) surveyed 300 *Muslims* residing in the United Kingdom (UK) and found that religious reasons were the principle motivations for *Muslims* in the UK to deal with Islamic financial institutions. Metwally (1996) found that the most important factor in determining attitudes of *Muslims* towards Islamic banks was "religion", followed by "convenience" and "traditional services". In addition, Metawa and Almossawi (1998) asserted that the most important factor for the use of Islamic bank services was "religion", followed by "profitability". These studies have documented the importance of religious factors in affecting bank customers' banking preferences. On the other hand, Erol and El-Bdour (1989) and Haron *et al*. (1994) claimed otherwise. They found that religion was not the primary motivation for customers dealing with Islamic banks. These studies however are lacked with the evidence pertaining to the association between religious obligation and the use of *ar-Rahnu* financing. On the basis of the studies, the following hypothesis was proposed:

H_1: *Religious obligation will positively influence the use of ar-Rahnu financing.*

2.2 Information on ar-Rahnu

The amount of information consumers have on *ar-Rahnu* is also identified as an important factor influencing the adoption. In terms of definition, information is a data whose form and content are appropriate for a particular use (Alter, 2002). There is empirical support for the causal link between knowledge about new technologies and usage intentions (Polatoglu & Ekin, 2001; Sathye, 1999; Howard & Moore, 1982). Nevertheless, there exists limited research investigated the importance of information and the use of *ar-Rahnu*. The said studies, however, provide description about the importance of information on a particular use of a system. To further grasp this, it is particularly essential to expound in more detail of some of the studies, which could also be generalized into an *ar-Rahnu* context. Polatoglu and Ekin (2001) found that there was a significant relationship between knowledge possessed by consumers and Internet banking adoption. Moreover, the low awareness of online banking is a major factor causing people ignore online banking because of their lack of knowledge of the system (Sathye, 1999). Thus, consumers must be aware of the new product prior to the adoption (Howard & Moore, 1982). By the same token, Pikkarainen *et al.* (2004) found information possessed by bank customers had a positive affect over online banking acceptance. Obviously, *Muslimah* are of interest to use *ar-Rahnu* if they are provided with sufficient and concrete information on *ar-Rahnu*, ranging from its concepts to applications. The amount of information on *ar-Rahnu* is important since *ar-Rahnu* is relatively peculiar in Eastern Malaysia, requiring more information to make *Muslimah* aware, thus impacting the use. On the basis of these studies, the following hypothesis was tested:

H_2:   *Information on ar-Rahnu will positively influence the use of ar-Rahnu financing.*

2.3 Transaction cost

Transaction cost is typically defined as the time and money spent in carrying out financial transactions (Mishkin & Eakins, 2008). As such in *ar-Rahnu*, *Muslimah* faced with reasonable time to transact their jewellery in order to obtain quick cash. Prior studies have examined the significance of pricing on the pawnshop transactions (Mohammed *et al*., 2005; Ismail & Ahmad, 1997).   Explained in more detail, Mohammed *et al*. (2005) argued that the service charge imposed by Islamic-based pawnshop was relatively cheaper than that of traditional pawnshop (e.g. imposed 2 percent). This means that the cost of getting quick cash in Islamic-based pawnshop is cheaper, thus, little burden is carried out by the customers. This assertion is in consonance with a study conducted by Ismail and Ahmad (1997). Ismail and Ahmad (1997) argued that the cost of getting quick cash from MGIT was cheaper than that of conventional-based pawnshop which is 2 percent for pawned items. On the basis of these findings, it is imperative to have *ar-Rahnu* shop which is offered competitive rate, to reflect the average pricing system in the market. On the basis of these studies, the following hypothesis was examined:

H_3:   *Transaction cost will negatively influence the use of ar-Rahnu financing.*

3. Research Method

3.1 Sample

The sample for this study comprised *Muslimah* of conventional pawnshops in Labuan and Kota Kinabalu. In order for individuals to participate in the survey, they must be ever consumed a conventional pawnshop and have intention to use *ar-Rahnu* financing in the future. The survey ran for one-month of 6-working days during September-October 2010. Every respondent was asked either they willing to participate in the survey, only volunteers were effectively administered to ensure non-mandatory participation. A total of 250 respondents accepted the survey form, out of which, only 217 responses were usable.

3.2 Research instrument

The questionnaire was divided into two sections. The first section consists of demographic data whilst the second section consists of the measurement of independent variables. In the second section of the questionnaire, a total of three measures were constructed. Two of these measures were adapted from past research whilst the rest were self-developed:

1. Religious obligation (Haron *et al*., 1994; Metawa & Almossawi, 1998).

2. Information on *ar-Rahnu* (Pikkarainen *et al*, 2004).

3. Transaction cost (added).

The above items were phrased in the form of statements as part of the survey to investigate the respondents' perceptions. To measure the respondents' perceptions, the study used the five-point Likert-type ranking scale from "1"=strongly disagree to "5"=strongly agree. The questionnaire was written in both the Malay and English languages. Back translation was used for the translation of the language in the questionnaire (Haron *et al*. 1992).

Prior to the actual survey, a pilot study was conducted on 20 *Muslimah* in Labuan using the developed questionnaire. The reason for the test was to identify any problems associated with the study instrument as well as any other relevant issues. All respondents of the test commented that the questions were easy to comprehend. Only minor works pertaining wording and format of the questionnaire were conducted – prior to the actual survey.

4. Results

4.1 First stage analysis – factor analysis

In this stage, the author utilised factor analysis. This technique can help us to reduce a large number of items to some smaller number by showing which variables belong together and which seems to indicate the same thing (Emory & Cooper, 1991). The analysis is also important in confirming the construct validity of the scales using the principal component analysis.

Particularly, an eigenvalue of more than 1.0 was used as a determinant criterion for each factor in the factor analysis. Factor loading values were obtained using varimax rotation. The minimum factor loading of 0.6 on its hypothesized constructs is proposed (Nunnally, 1978). On the basis of the analysis, the author grouped the 9 independent variables into three factors, namely "transaction cost", "religious obligation", and "information on *ar-Rahnu*". For each factor, there exists some connotations, for instance, transaction cost had 3 items, leading to the use of factor analysis. This technique is argued to be consistent with the one used by de Vaus (2002) who claimed that factors are not single measurable entities but are constructs of a number of other directly observable variables. Items related to the use *ar-Rahnu* financing were not included in the analysis since it is a dependent variable. It is computed separately. Table 1 details the outcomes of factor loading for independent variables which reported that all items examined were significant.

Table 1: Factors Loading for Independent Variables

Items	Factor loadings		
	Transaction cost	Religious obligation	Information on *ar-Rahnu*
RO1		.847	
RO2		.831	
RO3		.778	
IAR1			.788
IAR2			.834
IAR3			.829
TC1	.841		
TC2	.844		
TC3	.794		
α	81.7%	80.2%	77.1%
Eigenvalue	3.586	1.673	1.195

Note: RO=Religious obligation, IAR=Information on ar-Rahnu, TC=Transaction cost

The study also used Cronbach's Alpha test in order to assess the reliability of the scales employed in this study. The Cronbach's coefficient alpha is reported in Table 1. The Cronbach's Alpha values for all dimensions ranged from 0.771 to 0.817, exceeding the minimum alpha of 0.6 (Hair *et al*., 1998), thus the constructs measured were deemed reliable. Table 2, on the other hand, details the Cronbach's Alpha test in which the items tested were found significant. Consequently, items which have values higher than 0.6 are retained for SEM.

Table 2: Factors Loading for Dependent Variables

Items	Factor loadings
USE1	.890
USE2	.797
USE3	.771
α	75.4%
Eigenvalue	2.021

Note: USE=Intention to use

Table 3: KMO and Bartlett's Test for Independent Variables

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.798
Bartlett's Test of Sphericity	Approx. Chi-Square	692.361
	Df	36
	Sig.	.000

The Kaiser-Meyer-Olkin (KMO) measure for the combined items of the independent variables show a value of 0.798, indicating that the sampling adequacy was greater than 0.5 and therefore satisfactory. Barletts Test showed a χ^2 of 692.362 with a significance level of 1 percent, where the total variance explained was 71.708 out of 3 components.

Table 4: KMO and Bartlett's Test for Dependent Variables

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.629
Bartlett's Test of Sphericity	Approx. Chi-Square	176.063
	Df	3
	Sig.	.000

On the other hand, KMO for the dependent variable depicts a value of 0.629 which tells us that the sampling was satisfactory. Barletts Test also found to be significant at 1 percent significance level. Overall, all 12 items including the items of the dependent variable are qualified for SEM.

4.2 Second stage analysis – SEM
Owing to the literature review, the following model was developed by the help of SEM. As presented in Figure 1, the model presents the association between the patronage factors and the use of *ar-Rahnu*. The relationship indeed produced three hypotheses to be tested and handful examined. The hypotheses are gratified using AMOS 16.
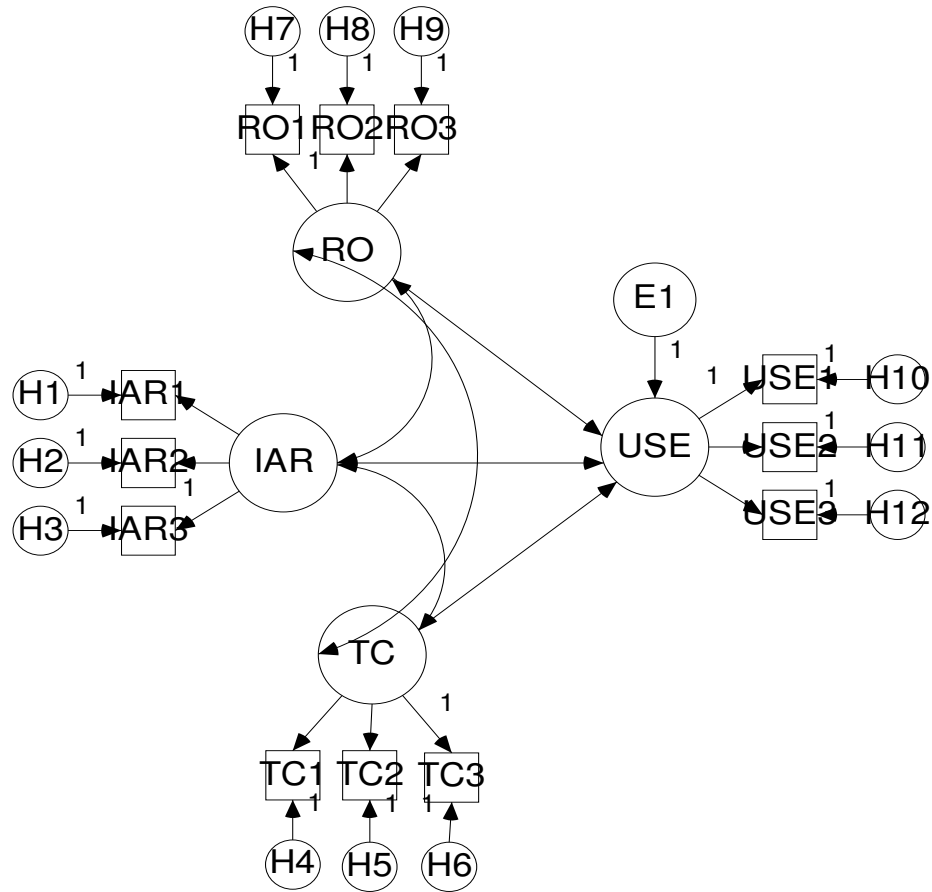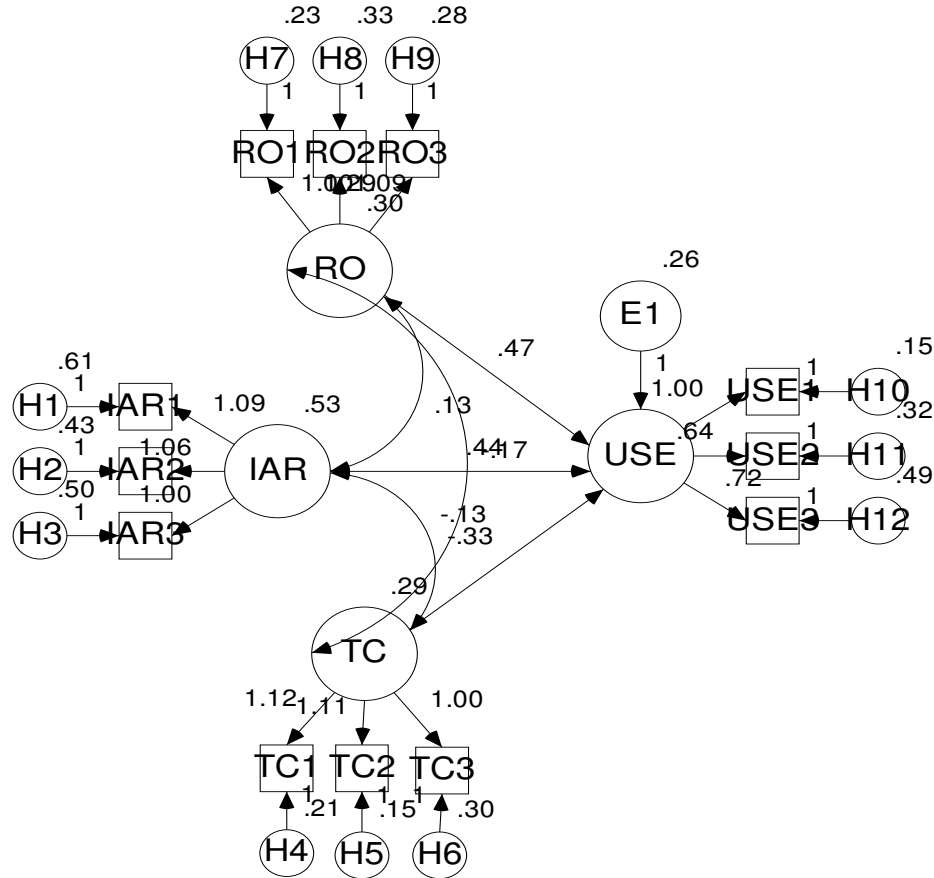
Figure 1: SEM Model for *Ar-Rahnu* Financing

Based on the variance inflation factor (VIF) and tolerance (not reported in this study), the data of this study were found to be superior. Expounded in more detail, it is noticed that the tolerance values for religious obligation, information on *ar-Rahnu* and transaction cost were found to be greater than 0.1 (10 percent) which means the results are of interest to be free from multicollinearity problem. These outcomes are also supported by the VIF in which the VIF of each variable was below than 10, which could be concluded that there was no collinearity with the data of the study. In sum, the variables used were found to be acceptable and free from any bias, thus supplying a cogent data for further analysis of the data.

Figure 2: Unstandardized SEM Model for *Ar-Rahnu* Financing

Furthermore, Table 5 shows that all of the proposed hypotheses were also significant according to SEM. Expounded in more detail, religious obligation was positively related with the use of *ar-Rahnu* ($p<.01$). This finding is consistent with the findings of the previous studies conducted by Omer (1992) and Metwally (1996). The greater the religious obligation is, the greater the use of *ar-Rahnu* among *Muslimah*. Information of *ar-Rahnu* was positively associated with the use of *ar-Rahnu* at the 1 percent significance level. This means, the positive the information is, the greater the use of *ar-Rahnu*. On the other hand, transaction cost was revealed as significant at the 1 percent level. The result upholds the findings of the previous studies findings by Mohammed *et al*. (2005) and Ismail and Ahmad (1997). This means the lower the transaction cost is, the greater the use of *ar-Rahnu* among *Muslimah*.

The results indeed provide validation that religious obligation, information on *ar-Rahnu*, transaction cost and use of *ar-Rahnu* found to be fundamental variables for the research model. The null hypotheses of the present study's hypotheses notably, *H1*, *H2*, *H3* are rejected at the 1 percent significance level. The rejection of the null hypotheses is indicating that the three proposed explanatory factors are instrumental in deliberating the use of *ar-Rahnu* among *Muslimah*. The finding is of value to add into the very limited knowledge available on the use of *ar-Rahnu* financing and thus elevating the research information pertaining to *ar-Rahnu* which is previously limited examined (Dusuki & Abdullah, 2007; Haron *et al*., 1994). More interestingly, this study is able to statistically examine the impacts of the proposed three factors on the *ar-Rahnu* and evidently found out that the three factors, although not comprehensive are able to explicate *Muslimah* acceptability on *ar-Rahnu*.

Table 5: Regression Model

Path			Estimate	S.E.	C.R.	P
USE	<---	RO	.466	.124	3.759	**
USE	<---	TC	-.325	.124	-2.622	**
USE	<---	IAR	.441	.083	5.277	**
RO1	<---	RO	1.000			
RO2	<---	RO	1.086	.113	9.573	**
RO3	<---	RO	1.286	.126	10.229	**
USE1	<---	USE	1.000			
USE2	<---	USE	.643	.067	9.589	**
USE3	<---	USE	.718	.080	8.964	**
IAR1	<---	IAR	1.000			
IAR2	<---	IAR	1.064	.122	8.739	**
IAR3	<---	IAR	1.093	.129	8.492	**
TC1	<---	TC	1.000			
TC2	<---	TC	1.106	.109	10.116	**
TC3	<---	TC	1.119	.113	9.922	**

*Note: *p <0.05; ** p<0.01*

The study used AMOS 16 to explain the goodness-of-fit of the model. The purpose of applying the statistical tool into the present study context is to test whether the proposed model is valid or not. The goodness-of-fit indices herein do not contain any implication, because they are just indices to verify whether the model fit is acceptable or not (Chiu *et al*., 2005). Nonetheless, the structural equation modelling can be used to measure the direct-indirect effect between all the latent variables involved (Mohd Suki *et al*., 2008). On the other hand, assessing whether the modified model is fit or

not is essential in order to make sure the model is acceptable in a newly context of research.

Table 6: Overall Fit Indices of the Model

Fit index		Recommended cut-off value	Proposed model
Absolute fit measures	X²	Near to d.f.	58.521
	d.f.	-	48
	X² / df	≤ 3.0 (Mohd Suki *et al.,* 2008)	1.219
	GFI	≥ 0.90 (Kline, 2005)	.959
	RMSEA	≤ 0.08 (Byrne, 2001)	.032
Incremental fit measures	TLI	≥ 0.90 (Schumacker & Lomax, 2004)	.985
	CFI	≥ 0.90 (Bentler, 1990)	.989

Table 6 illustrates the overall fit indices of the model. The model fit is assessed using chi-square and chi-square/df value, coupled with other model fit indices like GFI, CFI, TLI and RMSEA. The cut off value for the goodness of fit indices was derived from Mohd Suki *et al*. (2008), Kline (2005), Byrne (2001), Schumacker and Lomax (2004) and Bentler's (1990) recommendation. Fundamentally, the study reported chi-square/df value (1.219), GFI (.959), TLI (.985) and CFI (.989). At this point, GFI, CFI and TLI were computed in order to provide a more robust evaluation of model fit (Kline, 2005). Worth to mention, the model had a RMSEA of 0.032 which was below than the cut-off value of 0.08. The result is considered satisfactory (Kline, 2005; Schumacker & Lomax, 2004). Importantly, the study model indicates a goodness-of-fit in addition to the supported hypotheses.

5. Concluding Remarks

This study has succeeded to review the impact of religious obligation, information on *ar-Rahnu* and transaction cost on the use of *ar-Rahnu* financing in Labuan and Kota Kinabalu. In consonance with the outcomes of the research, there are three possible implications which could have fine impacts on the policy makers, pawnshop businesses and users. These implications are elucidated below:

1. Religious obligation is found to be the influential factor in shaping one's decision to use *ar-Rahnu* financing. For the purpose, policy makers namely the state government is of interest to ensure the element of Islamic business ethics, *hablumminan-nass* relationship and honesty in conducting *ar-Rahnu* businesses are found in their practices. Any businesses that are intended to open up Islamic pawnshop businesses should be able to comprehend the importance of Islamic religion in the business. The existing *ar-Rahnu* providers such as Bank Rakyat

and BIMB are of advantage to render greater emphasis on "religious obligation" by disseminating it in their existing brochures and *ar-Rahnu* manuals. These materials are able to make *Muslimah* believes that the banks conducting the business in line with the teaching of Islam.

2. Information is also essential to be addressed in contemporary practices of *ar-Rahnu*. In order to tackle the issue, providers of this facility such as the two said banks, as noted earlier, may of interest to plan in organizing a "Saturday-Exhibition" in shopping malls in order to invite prospective users to learn and familiarise with the concepts of *ar-Rahnu*. Alternatively, advertising of their *ar-Rahnu* products on television could also be a wise approach to infuse awareness among prospective users. These activities of service providers, overall, will facilitate to generate good perceptions among public pertaining to *ar-Rahnu*. The perceptions, in turn, are able to transform an individual's behavioural intention to the actual use of *ar-Rahnu* facility.

3. Transaction cost associated with the *ar-Rahnu* transaction is also found pivotal to deliberate. Charging reasonable service charges is of value to be given a reasonable attention and focus. The current banks offered this facility should grant more value to users rather than taking a large portion of money from the transaction as a profit. Giving gift for the earliest redemption is of importance to consider by the service providers as this might be able to differentiate between Islamic and conventional-based pawnshops. Further, policy makers such as the state government and the federal government can also consider transaction cost when opening Islamic pawnshops in the future. Charging reasonable service charges for *ar-Rahnu* transactions based on locations, poverty level and affordability of *Muslimah* is valid to be taken into deliberation.

It is acknowledged that, the current project is only intended to examine the three patronage factors for *ar-Rahnu* which is noted as trivial in terms of impact to the use of *ar-Rahnu*. The inclusion of other key factors is of paramount importance to introduce a model which incorporates a richer set of key factors with expanded depth and breath in explaining the *ar-Rahnu* financing use among *Muslimah* as well as to better predict the use of *ar-Rahnu*. For the suggestion, the factors such as "mouth-to-mouth impact", "post-advertisement program influence" and "service quality" could also of value to be considered as the potential predictors for the intention to use *ar-Rahnu*. On the other hand, the study is confined to some locations in Malaysia. Future studies are calling to examine the *Muslimah's* usage intention on *ar-Rahnu* in Kelantan and Terengganu, Western Malaysia. Opting these locations is due to the fact that *ar-Rahnu* businesses are more developed than that of Labuan and Kota Kinabalu, Eastern Malaysia.

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