

## ZAKAT ON BANKING DEPOSITS AMONG URBANITE MALAYSIAN MUSLIMS

Wan Marhaini Wan Ahmad <sup>1\*</sup>  
Ana Shakirah Md Sapir @ Shafik <sup>2</sup>

<sup>1,2</sup> Department of Finance and Banking, Faculty of Business and Accounting, University of Malaya

\*Corresponding author (Email: anashakirah.kdu@gmail.com)

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**Abstract:** *Banking deposits can be considered as one of the most recent zakatable assets which have distinct characteristics that evolved in tandem with the financial and technological advancements of banking deposit products. The paper examined demographic differences in payment of zakat on banking deposits and zakat literacy among urbanite Malaysian Muslims. Characteristics such as age, education level, and employment status were investigated to determine the main drivers behind the payment of zakat on banking deposits and the level of zakat literacy among the respondents. Further, the paper examined their level of zakat literacy and its relationship with payment of zakat on banking deposits. In measuring zakat literacy, we adapted measurement of financial literacy as introduced by OECD namely awareness, knowledge, skills, attitudes and behaviours. Findings indicated that education level and employment status played significant roles in determining payment of zakat on banking deposits among the Malaysian Muslim urbanites. Meanwhile, payment of zakat on banking deposits was found to be positively significantly correlated with zakat awareness and behaviour but not for zakat knowledge and skills. There was also a significant difference in the level of zakat literacy and all of its dimension between the payers and non-payers of zakat. The findings signal the importance of appropriate educational programs that ensures the zakat literacy among the urbanite zakat payers to further improve their understanding and payment of zakat on banking deposits.*

**Keywords:** Zakat, Zakat Literacy, Banking Deposits, Urbanite Muslims.

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### INTRODUCTION

In 2018, the amount of zakat on wealth collected in Malaysia was RM651.2 million contributed mainly by zakat on salary (68.4%), business (18.1%) and savings (6.91%). Among these three types of zakat, notably the gaps between zakat on savings and the other two types of zakat was huge. The amount of payment for zakat on savings did not resonate the amount of deposits outstanding in the Islamic banking industry valued at RM115.1 billion (MOF, 2019). At 2.5% the payment of zakat on Islamic banking deposits alone is expected to be around RM2.8 billion. The big discrepancy between the two figures is deemed to be contributed to several reasons. Islamic banks where most of the modern savings are placed do not pay zakat on behalf of their depositors (Wan Ahmad, Rosele & Abdullah, 2014). Up to this point of writing, only two

locally owned full-fledged Islamic banks provide a facility to help their client pay zakat on savings. Savings or deposits at these banks are themselves non-ordinary banking facilities. Islamic banks offered deposit and investment accounts that are structured based on multiple Shariah contracts such as *qard*, *wadiah*, *tawarruq*, *mudarabah* and *wakalah bi al-istithmar*. Each underlying Shariah contract carries a different zakat obligation on its owners (depositors). Further, most of these deposit facilities allow customer to deposit and withdraw at his will needing a systematic tracking in order to determine the amount of savings whether it is above *nisab* and when is the beginning of *hawl* or when it may be disrupted. Commonly, an individual owns multiple deposit accounts not only at a bank and these deposits may be treated as security deposits which may change the status of its ownership (from full to partial and vice versa). All these demands the depositors not only to understand the Shariah requirements about the eligibility and requirements of payment of zakat on deposits but also to have a record of their banking statements and continuously monitoring them.

Among the payers of zakat, the paper posits that those with higher income are more likely to pay zakat especially on savings. For zakat is obliged on savings only when the savers owned them above the *nisab* throughout the *hawl* which may only be possible for those who have a certain amount of continuous idle income for a one-year period. Among the segments of the population, the urbanites have been shown to secure consistent higher income than their counterparts. The urbanites are persons who inhabit major cities and are considered as affluent consumers with an optimistic outlook on life and adopt more contemporary lifestyle as compared to those who live in "small town" or rural areas. Living in the economic centres of a country allow them opportunities for higher income from involvement in various economic activities and professional careers. Official reports showed that the median monthly income of the Malaysian urban households at RM5,860 was almost twice than that of rural families in 2016. The highest median monthly incomes were recorded by those residing in the main cities in the Lembah Klang areas like Petaling (RM10,792), Sepang (RM10,121), Gombak (RM9,908) and Hulu Langat (RM9,593) (DOSM, 2016).

Studies on financial behaviour have found that the urbanites behave differently when compared to their counterparts especially in their financial decision making (Romeo & Mario, 1990). Sabri, Cook & Gudmunson (2012) found that they have higher perceived financial well-being regardless of their income. Living at the centre of an economy, allow the urbanites wide exposure to financial products and services and provide an access to an extensive range of financial knowledge and opportunities enabling them to grasp financial jargons easily (Silva, Silva & Bhuptani, 2012). Considerably less is known, however, about the urbanites and the levels of their monetary assistance to the society. The absence of research on this topic is conspicuous when considering the association of higher income with monetary assistance. A good example is payment of zakat which is an obligatory money assistance among the Muslims. Statistics showed significant high collections of zakat over the years by the zakat institutions in Selangor and the Federal Territories (FT), the states where the main cities are located when compared to the other Malaysian states (PPZ, various years).

Given the above, the present paper extends research on zakat payment behaviour by examining zakat payment on banking deposits among Muslims in two most urbanized states in Malaysia. Specifically, the paper attempted to gauge the main drivers behind the urbanites' payment of zakat on banking deposits in terms of age, education level, monthly income and employment

status. The paper also explored the level of zakat literacy among these respondents. Extant literature on financial behaviour has noted that financial literacy plays an important role behind a person's financial decision. Understanding of finances provides an individual with the ability to understand the workings and impacts of finance in his life (Dolan, Elliot, Metcalfe, & Vlaev, 2012). A financially literate individual is able to access to the right financial information allowing him to adequately analyse them before making a decision regarding a particular financial need. Studies have also shown that awareness about the importance of financial decision making has always preceded these two prerequisites. Similarly, studies have indicated that financial literacy is not necessarily limited to knowledge and skill of finance but the ability to apply and behave accordingly (Atkinson & Messy, 2012). In the context of zakat payment such awareness, knowledge and skills together with the right attitudes and behaviour about zakat payment are crucial in influencing a payer to be. This is given that zakat is a religious obligation that requires specific knowledge and skills. The regulatory set-up of zakat payment itself where it is a legal obligatory on one hand and the lack of enforcement on the other, allow various attitudes and behaviour among the eligible payers. To achieve these aims, the remainder of the paper is therefore organised as follows. The next section reviewed the demographic influences on zakat payment and followed by a discussion on financial literacy. The data and methods were described next, followed by the findings before the paper closed with a summary of the results and some recommendations.

## **DEMOGRAPHIC FACTORS AND ZAKAT LITERACY**

Even though extensive works on determinants of zakat payment are available in the literature, the studies mostly examined zakat on agriculture, employment and business (Abubakar, Md Idris & Saad, 2017; Merlinda, Burhan & Ekawaty, 2016) and none was known to investigate the drivers of zakat on savings. Among the examined determinants, demographic factors such as age (Ahmad, Wahid & Mohammad, 2006) and income (Nor Ghani, Majid, Ahmad, & Ismail, 2001) have been found consistently as a significant predictor of zakat payment behaviour. Meanwhile, a handful of studies that examined zakat on savings were found to focus only on the obligation of payment (Azman & Bidin, 2015) and its requirements (Wan Ahmad *et. al.*, 2014).

In the studies on individual behaviour, financial literacy has been identified as a significant predictor in financial related decisions. In the sphere of zakat payment behaviour, zakat literacy is a concept that can be closely associated with financial literacy since both are a necessity in execution of efficient and effective financial decisions. As such, in developing the constructs and dimensions of zakat literacy, this study decided to hinge heavily on the measurement of financial literacy as developed by the Organisation for Economic Co-operation and Development (OECD INFE, 2011). The measurement comprised of five dimensions: financial awareness, knowledge, skills, attitude and behaviour.

Financial awareness is related to consciousness behind a person financial transaction. A highly financially literate individual is expected to be spending within means since he is aware of its economic and social implications (Hoyt, 2016). A person who is highly zakat literate is expected to be mindful about the obligation to pay zakat given the cognizance of punishment that awaits those who did not pay their zakat dues.

The second dimension is financial knowledge. This concerns an understanding of the concepts of finance, financial markets and its operations as well as the laws relating to

investment and finance. In the context of zakat, knowledge and information about zakat are necessary to ensure that those who are eligible to pay zakat on their wealth are fulfilling their obligation at the correct amount and time. Mohd. Ali, Hairunnizam & Nor Ghani (2003) found that knowledge on Islam significantly predicts payment of zakat on income but knowledge on zakat on income negatively impacted the zakat on income behaviour. Specifically, for zakat on deposits, to be considered as zakat literate, the payers must know the nature of the Islamic banking deposits that includes the underlying Shariah contracts, besides the timing and amount of deposits and withdrawals (Wan Ahmad *et. al.*, 2014). While zakat knowledge is about understanding the zakat concepts, zakat skills refer to the ability to apply the knowledge to specific zakat scenarios. Mastering zakat skills required resourcefulness of Muslims to keep abreast with the latest zakat information as well as ability to compute basic zakat payable.

In the extant literature of finance, financial attitude is about judgement of individuals either they perceived the financial services and the providers in the positive view, negative, passive and/or indifferent. Having positive attitudes regarding the payment of zakat is regarded necessary to increase the possibility of zakat payment. Zakat attitude of Muslims could be evaluated for examples by their perception about the obligatory and ease of zakat payment. While financial behaviour dimension is an active conduct of an individual that is necessary in realising the financial decision. Such conducts include effective acts of routine, planned and informed financial undertakings like keeping up-to date financial records, paying bills on time, and using credit cards wisely (CFPB, 2015). In the context of zakat payment, zakat behaviours are actions taken to ensure that zakat payment can be paid accurately and timely. A zakat literate person ensures that payment made is equivalent to 2.5% of the eligible banking deposits and it is paid when the *hawl* is completed. To enable the achievement of this, she at least must keep a record on all of her banking accounts to track the amount of zakat that is due and the timing of its obligation.

Therefore, based on the above measurement of financial literacy, zakat literacy can be defined as having the awareness, willingness and ability to grasp the concepts and obligation to pay zakat which end up with taking necessary actions to make the payment.

## **METHODOLOGY**

The respondents for the study were purposively selected among the residents of Klang Valley a metropolitan city integrated from eleven urbanized districts from Selangor and the Federal Territories. Households in this area are the highest mean monthly income earners in Malaysia. A purposive sampling technique was decided in which 500 questionnaire surveys were distributed in five major districts: Kuala Lumpur, Gombak, Shah Alam, Petaling, and Sabak Bernam. From these questionnaires, a total of 498 were returned and 485 were usable for further analysis. From these respondents, 177 had paid zakat on savings.

Nominal and ordinal scales are employed for the demographic factors of age, education level, employment status and monthly income. The constructs for the five dimensions of zakat literacy were adapted from previous measurements on financial literacy but adapted according to the religious requirements on zakat on deposits. Awareness, attitudes and behaviours were purposely designed by using 5-point Likert Scale from 1 (strongly disagree) to 5 (strongly agree). Meanwhile, for knowledge and skills, the respondents were required to rate any one answer for either Yes, No or Not Sure. Each correct answer was awarded 1 mark while nil for

each incorrect or Not Sure answers. The scores from all dimensions were further divided into three levels: high for scoring (> 75%), medium (50 – 74%) and low zakat literacy (< 49%).

## FINDINGS

The demographic profiles of the respondents are presented in Table 1 below. More than 70 percent of the respondents were of the age of 35 and above. This was intentional since from a pilot survey conducted prior to the research, it was found that many of those aged 35 and below did not pay their zakat on deposits. It was deduced that prior to this age, many of the Malay Muslim population would not have enough savings that obliged them to pay the zakat on banking deposits. From the age of 35 and above, percentages of those who paid the zakat increased but plummeted when they were 65 and above most probably due to the drop in the household post-retirement income. The majority of the respondents (54%) received an education level which allows them to enter into good positions in the labour market as exemplified by the monthly income received. Though for many, their monthly incomes were expected to be inadequate giving the high cost of living in their residential districts. T-test of the payers revealed that there is a significant difference between female and male payers and across age, education levels, employment status and their monthly income.

**Table 1. Demographic profiles of zakat payers on banking deposits and T-test/ANOVA**

Demographics Characteristics		N= 485 (%)	No. of Payers (%)	T-Test/ANOVA Payers
Gender	Female	288 (59.4)	118 (66.7)	46.904*
	Male	197 (40.6)	59 (33.3)	
Age	Below 35	76 (15.7)	16 (9.0)	41.189*
	35-44	88 (18.1)	13 (7.3)	
	45-44	123 (25.4)	31 (17.5)	
	55-64	156 (32.2)	61 (34.5)	
	65 and above	42 (8.7)	9 (5.1)	
Education Levels	Secondary and below	240 (49.5)	55 (31.1)	15.259*
	Diploma	78 (16.1)	38 (21.5)	
	Professional	20 (4.1)	11 (6.2)	
	Bachelor degree	97 (20.0)	45 (25.4)	
	Masters/ PhD	50 (10.3)	28 (15.8)	
Employment Status	Government sector	118 (24.3)	40 (22.6)	18.578*
	Private sector	101 (20.8)	30 (16.9)	
	Self-employed	74 (15.3)	15 (8.5)	
	Non-employed	96 (19.8)	33 (18.6)	
Monthly Income	Retired	96 (19.8)	59 (33.3)	16.171*
	Less than RM 2,000	202 (27.9)	50 (28.2)	
	RM 2,000 – RM 3,999	157 (29.6)	52 (29.4)	
	RM 4,000 – RM 5,999	59 (17.3)	31 (17.5)	
	RM 6,000 and above	67 (25.1)	44 (24.9)	

Notes: \*p < 0.01

Correlation matrix for coefficients of 0.55 and above was considered in selecting the constructs for each of the zakat literacy dimensions. This resulted in the initial 38 designed constructs examined to be reduced to only 32 constructs. The reliability test for the consequent

zakat literacy dimensions with 5-point Likert scale recorded high Cronbach alpha coefficients from 0.589 to 0.888. Meanwhile, the Bartlett's test at 3786.54 confirmed that there was no redundancy between variables and the Kaiser-Meyer-Olkin (KMO) was at greater than 0.88 indicating that there was no multi-collinearity among the items.

**Table 2. Correlations between zakat literacy scores and demographic characteristics**

	<i>Age</i>	<i>Education level</i>	<i>Monthly Income</i>
<b>Zakat Literacy</b>	-0.010	0.061	0.115
<i>Awareness</i>	0.248*	0.084	0.212*
<i>Knowledge</i>	-0.274*	-0.065	-0.141*
<i>Skills</i>	-0.221*	-0.104	-0.133*
<i>Attitudes</i>	-0.047	-0.156*	-0.199*
<i>Behaviour</i>	0.216*	0.233*	0.331*

Notes: \*p < 0.01

Correlation test between zakat literacy scores and selected demographic characteristics revealed that zakat behaviour was consistently correlated in a positive manner with age, education level and monthly income. Surprisingly, the more elderly and the higher income respondents were found to have lower zakat knowledge and skills than their counterparts.

**Table 3. Comparison of zakat literacy scores between payers and non-payers**

<b>Dependent Variable</b>	<b>Independent Variables: Zakat Literacy Scores</b>					
	High 75%-100%	Medium 50% - 74%	Low 0-49%	Mean scores	SD	t-statistics
	<i>Awareness</i>					
<i>Payers</i>	47	126	4	0.6675	0.0870	t = 2.159*
<i>Non-Payers</i>	38	215	55	0.5881	0.1086	
	<i>Knowledge</i>					
<i>Payers</i>	0	5	172	0.3376	0.0627	t = 39.008*
<i>Non-Payers</i>	0	38	270	0.3714	0.0901	
	<i>Skills</i>					
<i>Payers</i>	0	33	144	0.3731	0.1164	t = 5.385*
<i>Non-Payers</i>	0	98	210	0.4053	0.1281	
	<i>Attitudes</i>					
<i>Payers</i>	1	52	124	0.4407	0.1174	t = 0.850*
<i>Non-Payers</i>	7	159	142	0.5084	0.1140	
	<i>Behaviour</i>					
<i>Payers</i>	82	70	25	0.6593	0.1559	t = 1.058*
<i>Non-Payers</i>	9	54	245	0.3300	0.1632	
	<b>Zakat Literacy</b>					
<i>Payers</i>	0	47	130	0.4755	0.0436	t = 5.349*
<i>Non-Payers</i>	0	43	265	0.4386	0.0500	

Notes: \*p < 0.01

Further investigation on zakat literacy scores between payers and non-payers of zakat on deposits indicated significant differences between them in all of the literacy dimensions. This highlighted the huge gap of zakat literacy between the two groups. Notably, the lowest mean scores for both groups were from the knowledge and skills dimensions while the significant differences in the mean score was noted between the payers and non-payers in their zakat behaviour dimension.

## CONCLUSION

Findings of the above indicated that there were significant differences between the age, education level, employment status and monthly income of the payers of zakat on banking deposits. A deeper examination about their zakat literacy found a big gap of knowledge and skills especially about zakat on deposits between the payers and non-payers and of different age and income groups. These findings highlighted the importance of ensuring the enhancement of knowledge and skills about zakat on deposits among the urbanite Malaysian Muslims if fulfilment of this type of zakat is to be improved. At the same time, to tackle the differences of zakat literacy between payers from diverse age and income groups, the methods of exposures to the information about zakat on banking deposits must also be different to ensure a more effective deliverable.

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