Understanding Bank Selection through Islamic Ethical Knowledge and Customer Perception on Islamic Banking Customer in Indonesia

Husna H Tokita and Deddy Priatmodjo Koesrindartoto*

School of Business and Management
Institut Teknologi Bandung,
Jl. Ganeca no.10, Bandung 40132, Indonesia

Abstract

This research has purpose to understand the cause related to Islamic Banking industry in Indonesia which has not yet shown any significant existence despite the use of "total football" approach for a relatively long term of stagnancy. As it has been officially announced in 2002, the development of blueprint project for 10 years after didn't meet expectation for the stakeholders and shareholders. Many Islamic Banking study has been conducted in many countries and it significantly support the development of the bank its country. The research was done by using the regression which the methodology used is showing the significance of each variable. The regression indicates positive relationship (significant) between religiosity in Sharia principle and prominence of the bank with the Islamic Ethical Knowledge of customers. Last but not least, this research could give market insight into the characteristic of people who are willing to support and improve the development of Islamic Banking in Indonesia.

Keywords: Islamic Banking, Indonesia, Stagnancy, Islamic Financing, Behavioral Determinants

* Author: Tel.: +62-81-79-2009-19

E-mail address: husna.hapsari@sbm-itb.ac.id

1. Introduction

1.1 Background

Around 90% of Indonesia' population is Muslim yet the market share of Islamic banking in Indonesia remains low. As of 2015, assets controlled by Islamic financial institutions in Indonesia only account 5% of the nation's total banking assets. This is sign of under-developed of Islamic Banking industry in Indonesia. On the other hand, this facts show that there is still ample room for growth of Indonesia's sharia-compliant financial services industry. OJK data as of March 31, 2017, total sharia financial assets of Indonesia (excluding Sharia Sharia) reached Rp967.9 trillion with the proportion of sharia banking industry reaching Rp368.17 trillion, IKNB syariah amounting to Rp92.57 trillion and syariah capital market reached Rp509, 72 trillion.

The development of sharia banking system in Indonesia is consistently implemented within the framework of dual-banking system to present an increasingly complete alternative banking services to the people of Indonesia. Taken together, the sharia banking system and conventional banking synergistically support the mobilization of public funds more broadly to improve financing capabilities for the national economic sectors.

In the end, the sharia banking system that Bank Indonesia intends to embody is a modern, universal Islamic banking system open to all Indonesians without exception. A banking system that presents applicative forms of shariah economic concepts formulated wisely, in the context of the current problems faced by the Indonesian nation, and with due regard to the socio-cultural conditions in which this nation has written its historical journey. Only in this way, the development effort of sharia banking system will always be seen and accepted by all Indonesian people as part of solution to various problems of the country.

Asset of Indonesia Sharia Financial Industry (per trillion rupiah)

Jenis Industri	2013	2014	2015	2016	Mar 2017
Perbankan Syariah	248.11	278.92	304.00	365.03	368.17
Sharia Insurance	16.66	22.36	26.52	33.24	35.25
Sharia Financing	24.64	31.67	22.35	35.74	36.49
Lembaga Keuangan Non-Bank Syariah Lainnya	8.25	12.25	16.03	19.69	20.83
Sukuk Korporasi	7.55	7.12	9.90	11.88	12.13
Sharia Mutual Fund	9.43	11.16	11.02	14.91	17.30
Sukuk Negara	169.29	208.40	296.07	411.37	480.29

Source: http://www.ojk.go.id

1.2 Literature Review

1.2.1 Islamic Ethical Knowledge

The exposure of Islamic Ethical Knowledge has significant and strong relationship with the people' attitudes in their daily lives. Having knowledge of insight of customer can help recognize the pattern of people in some certain situations. Understanding of people towards Islamic banking can be set as tool to gain more customer insight and expand the network of Islamic banking itself. Islamic Ethical knowledge has driven the significant relationship with the people' daily attitudes and including how do they behave on economic, moreover investment behavior.

1.2.2 Islamic Ethical Knowledge and Religiosity in Sharia Principle

Gilani, Hasan (2015) stated study in Kuwait has found that the religion became essential motive for people to choose the Islamic banking services regardless their knowledge within the industry. Some argue religiosity isn’t the driven factor of people to be a customer within Islamic Banking

1.2.3 Islamic Ethical Knowledge and Prominence of the Bank

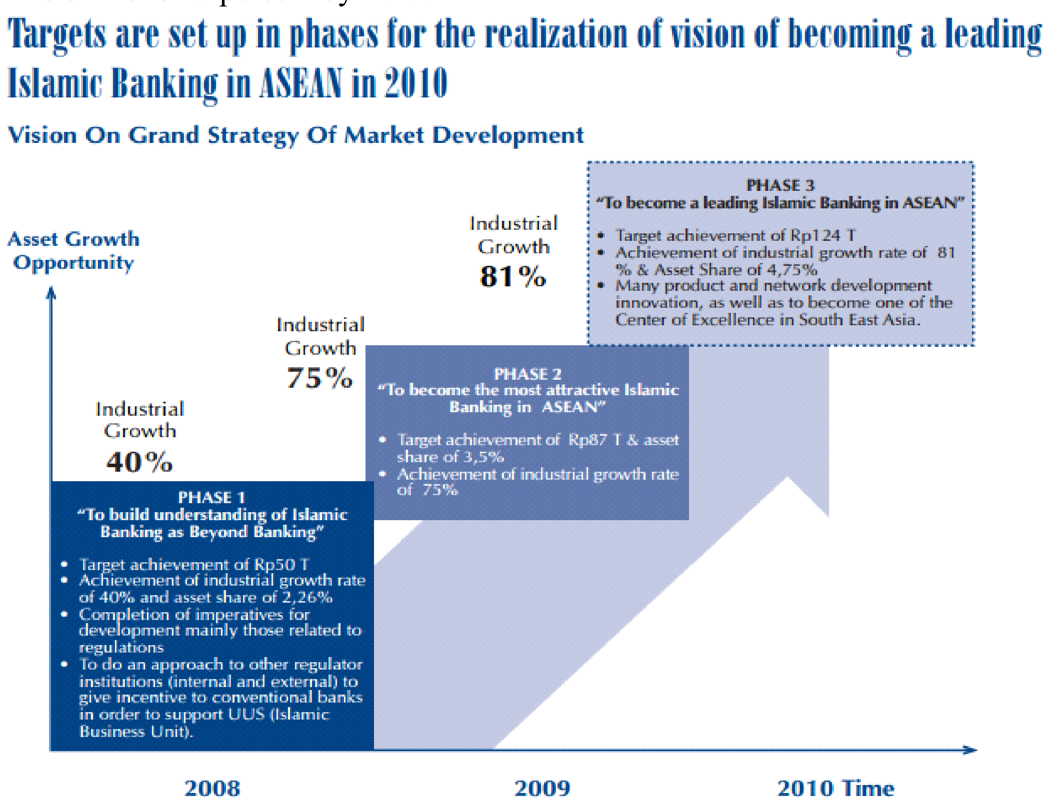
Lo, Ching Wing; Leow, Chee Seng (2016) stated that lack of studies was conducted on customer perceptions throughout Asia. Many Islamic banking studies was conducted more on Europe and Middle East. The reputation of the bank itself is built with the ethical management as vital part of Islamic banks. Setyobudi, Wahyu Tri; Wiryono, Sudarso Kaderi; Nasution, Reza Ashari; Purwanegara, Mustika Sufiati (2015) stated that implicit attitude toward Islamic banks is lower than explicit attitude and both have significant contribution to development of desire toward saving at Islamic banks related with reputation and perception towards Islamic Banking.

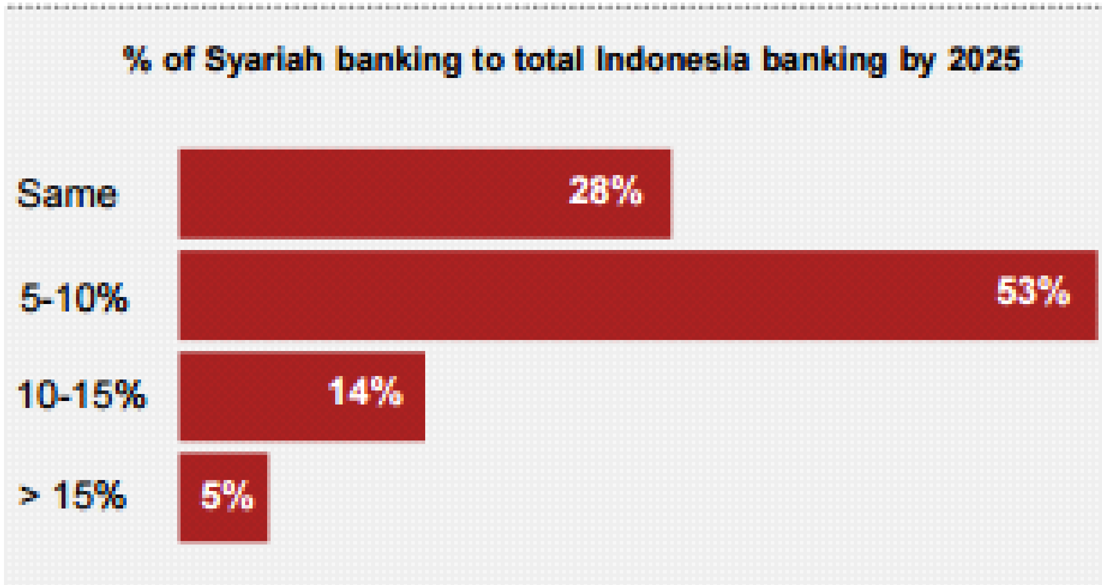
1.2.4 Islamic Ethical Knowledge and Investment Familiarity

Study from some Islamic Banking are conducted and found the acceptance of Islamic Banking is not only based on people' belief but also the work and services provided by bank in reliable way. These terms very, start from explaining the fundamental distinguish from conventional bank, socialize the product' name and its services that sometimes confusing. As new services that merge within modern era, Islamic Banking needs to show the reliability and the trust elements from broaden society.

2. Data

This is the Grand Strategy of Market Development of Islamic Banking data of Indonesia which is released privately from Ministry of Finance. Surveyed by PwC stated that people have a positive outlook on market conditions, loan growth (more than half expect loan growth in excess of 15% in 2017), and expected improvement in net income (all) of Islamic Banking. Syariah bankers also had the same views about Syariah market share by 2025 as did the overall industry, expecting growth to outpace the overall market but not to levels set as targets by the regulator or government. Syariah banking is currently roughly 5% of the overall Indonesia banking market assets, as compared to 20% in neighboring Malaysia. Considering Indonesia is the largest Muslim population in the world, about half of bankers responded that they see Syariah banking in the 5-10% range by 2025, and almost one-third felt it would still be the same level as it is now. Only 19% felt it would be greater than 10% of the market by 2025. Therefore overall the survey indicates that Indonesia bankers expect Syariah banking to outpace overall industry growth till 2025, but only slightly year by year. The above results are well under the goal of OJK's 5- year roadmap for Syariah banking developing in 2015, which targets to triple the market share of Islamic banks to 15 percent by 2023.





3. Methodology

3.1 Reliability Test

Reliability test has purpose to measure the stability and consistency of variables. This test is necessary when it is related into which degree the variables determine the concepts that has been set up within research. The greatest broadly used approaches to investigate the internal consistency are by using the Cronbach's Alpha. The item with multiple choices, for example the questionnaires which constructed on the Likert Scale, then the Cronbach's Alpha is the accepted method to examine the reliability. The nearer the Cronbach's Alpha to 1 then it will provide a greater reliability from the internal consistency. The reliability lower than 0.60 is reflected to be poor, then in range 0.70 is acceptable and the reliability which more than 0.80 is reflected as good.

3.2 Pearson Correlation

The study is using Pearson correlation because the researcher wants to measure the strength of the association between the independent behavior (i.e., religiosity, prominence, and trust) with the dependent variable (the Islamic Ethical Knowledge of Indonesian customers). According to Kremelberg, Pearson's correlation coefficient is measurement of the relationship concerning two variables that hard to be measured quantitatively such as the relationship between two endless variables. The correlation among slightly two variables using Pearson's correlation will continuously between −1 and +1. Correlation coefficient of 0 defines that there is no relationship existed. A correlation coefficient of +1 defines that there is a perfect positive correlation, or existing relationship, among the two variables. For this study, high positive correlation means there is correlation between the Islamic ethical knowledge of Indonesian customers in Islamic banks with religiosity, prominence of the bank, and trust towards investment in the bank. With value of $P < 0.01$ indicates that the stronger the religiosity, prominence of the bank, and trust towards bank means the greater the Islamic ethical knowledge of Indonesian customers in Islamic banks. Other than that, if there is negative correlation between Islamic ethical behavior of Indonesian customers in Islamic banks with religiosity, prominence of the bank, and trust towards bank, it shows the level of Islamic ethical knowledge of Indonesian customers in Islamic banks is weaker.

3.3 Multiple Regression

This study employed multiple regressions because the researcher used to test the hypothesis and it will determine the independent variables (i.e. religiosity, prominence of the bank, and trust towards investment in the bank) towards dependent variable (the Islamic ethical knowledge of Indonesian customers). Having insight into data related into independent variable can be used to having outlook towards powerful market' behavior and figures out how things exist to the way they are (Higgins, 2005). The researcher intrigued in predicting how a person behaves in depositing money in Islamic banking. Independent variables are religiosity, prominence of the bank, and the trust towards bank that might all contribute towards the Islamic ethical Knowledge of Indonesian customers in Islamic banks. Numerous statistical tools have been established to determine the independent variables contributions towards Multiples Regression method. Williams et al., (2012) stated his predictions underpinning of the multiple regression analysis are ratio of cases independent variables, linear regression, normality, autocorrection, multicollinearity and homoscedasticity. All of the above predictions stated will be tested and all the variables did not violate the predictions.
The notation for the model deviations is .

$$y_i = \beta_0 + \beta_1 x_{i1} + \beta_2 x_{i2} + \ldots \beta_p x_{ip} + \varepsilon_i \text{ for } i = 1,2, \ldots n.$$

3.4 Research Hypothesis

This study has purpose to inspect religiosity, prominence of the bank, and trust towards investment in the bank that able to test these hypothesis.

H^1_0: There is no significant relationship between religiosity in Sharia principle toward Islamic Ethical Knowledge in Islamic Banking' customer in Indonesia

H^1_A: There is significant relationship between religiosity in Sharia principle toward Islamic Ethical Knowledge in Islamic Banking' customer in Indonesia

H^2_0: There is no significant relationship between prominent of the bank toward Islamic Ethical Knowledge in Islamic Banking' customer in Indonesia

$H^2_{A:}$ There is significant relationship between prominent of the bank toward Islamic Ethical Knowledge in Islamic Banking' customer in Indonesia

H^3_0: There is no significant relationship between investment familiarities toward Islamic Ethical Knowledge in Islamic Banking' customer in Indonesia

$H^3_{A:}$ There is significant relationship between investment familiarities toward Islamic Ethical Knowledge in Islamic Banking' customer in Indonesia

4.6. Method of Research

This study uses subject-complemented instrument, questionnaire that was designed and adopted based on previous similar study. Online questionnaire survey was distributed started around 7 days from 1 June 2017 to 7 June 2017. The target of the questioner were the people aged 18-30 years with the life experience or currently become the customer of Islamic Banking in Indonesia, especially in Bandung and Jakarta.

4. Analysis and Result

Reliability Cronbach-Alpha

The summary said that all 250 data are valid and the non-valid data is 2. The Cronbach Alpha's Score is scored more than 0.6 means the reliability for this questionnaire is good. Every item in the questionnaire has been assured of the reliabilities since the Cronbach's-alpha is lower than the total cronbach's-alpha score.

Table 1: Result of Reliability Analysis

Influencing Variable of Islamic Ethical Knowledge of Customers	Cronbach' αcoefficient
Religiosity in Sharia Principle	0.894
Prominence of the Bank	0.915
Investment Familiarity	0.929
Islamic Ethical Knowledge	0.923

This is the result of analysis on the significant for individual variables. Each **β** coefficient appeared at 0.918 for religiosity in sharia principle, 0.231 for prominence of the bank, and 0.017 for investment familiarity. Standardized regression coefficient (**β**) represents importance of regression coefficient appeared at 0.829 for religiosity in sharia principle, 0.168 for prominence of the bank, and 0.092 for investment familiarity.

Table 2: Multiple Regression Analysis between IEK of customers and other Variables

Independent Variable	Unstandardized Coefficient β	SE	Standardized Coefficient (β)	t	Significance
(Constant)	0.204	0.079			
Religiosity	0.918	0.057	0.829	16.021	0.000
Prominence	0.231	0.082	0.168	2.823	0.005
Investment Familiarity	0.017	0.069	0.092	1.686	0.093

$$y_i = \beta_0 + \beta_1 x_{i1} + \beta_2 x_{i2} + \beta_3 x_{i3}$$

y_i: Islamic Ethical Knowledge

β_0: Constant

$\beta_1 x_{i1}$: Religiosity (Sharia Principle)

$\beta_2 x_{i2}$: Prominence of Bank

$\beta_3 x_{i3}$: Investment Familiarity

The regression equation is

Islamic Ethical Knowledge= 0.204 + (0.918) Religiosity + (0.231) Prominence + (0.017) IF

H^1_0: There is no significant relationship between religiosity and the Islamic Ethical Knowledge in order to show willingness of people to support Islamic Banking development in Indonesia

$H^1_{A:}$ There is relationship between religiosity and the willingness of people to support Islamic Banking development in Indonesia

We reject null hypothesis and accept the alternatives hypothesis, with the meaning that there is s**ignificant relationship between religiosity in Sharia principle toward Islamic Ethical Knowledge**

Based on the findings, there is a significant positive relationship between religiosity in Sharia principle toward Islamic Ethical Knowledge. Refer to the previous studies that mainly concentrated in Middle East countries, it also gives a same result of positive relationship between these 2 variables. It is generally understandable that the more people feel the strong obedience towards Allah and Islamic values; they will more likely make a decision in all life-aspects with reference to what Allah and Rasulullah have commanded in the Al-Qur'an. The definition of religiosity in Sharia principle including in economic aspect and the more they learn about the actual practice in conventional banking, the more they recognize its practice and consider it as something forbidden in the eyes of Allah, similarly stated by Zakaria (2010).

H^2_0: There is no significant relationship between prominence of the bank and the willingness of people to support Islamic Banking in Indonesia
$H^2_{A:}$ There is significant relationship between prominence of the bank and the willingness of people to support Islamic Banking development in Indonesia

We reject null hypothesis and accept the alternatives hypothesis, with the meaning that there is s**ignificant relationship between prominent of the bank toward Islamic Ethical Knowledge**

Based on the findings, there is a significant positive relationship between prominences of the bank toward Islamic Ethical Knowledge. Although based on research finding, it does not really share a big portion like the variable of religiosity itself. It also has a piece of market insight, based on previous studies that Islamic Banking industry is still a new field in alternative way to managing people' fund and economy itself. The Islamic Banking industry may be unheard by wide range of people and there is some stereotype and perception that had been stated by previous studies that people still feel it is the service for Muslim people only, it cost more than the conventional bank, and some have a concern in efficient service, the competency of its personal within industry, and it showed similar result to those of Nasir (2014) and Harun (2015).

H^3_0: There is no relationship between trust towards bank and the Islamic ethical behavior of Islamic banks' customers in Indonesia.
$H^3_{A:}$ There is relationship between trust towards bank and the willingness of people to support Islamic Banking development in Indonesia

We accept the null hypothesis and reject the alternatives hypothesis, with the meaning that there is no **significant relationship between investment familiarities toward Islamic Ethical Knowledge.**

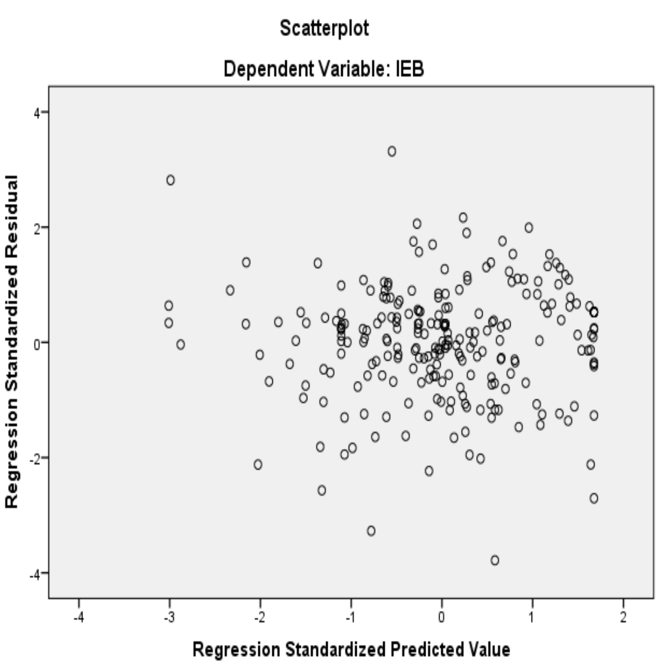
Based on the findings, the investment familiarity has no contribution towards Islamic Ethical Knowledge of Islamic Banking's customer in Indonesia. This findings contradict with Bashir (2009) in Dubai about the high impact of investment familiarities (or anything related with the financial literacy and the profit, return, gained from the Islamic Banking) besides religiosity. It is assumed normal since this particular population is still in early adult age and they care more into saving activity rather than a investment activity by means maximize the use of their money.

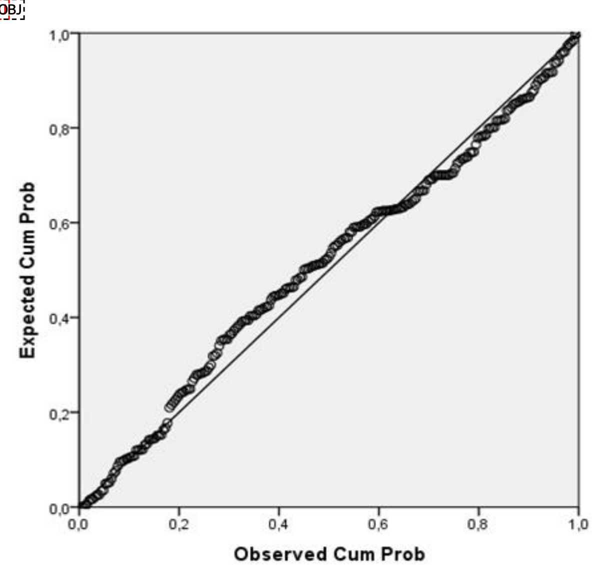
Pearson Correlation

In order to conduct proper test, the 5 classical assumptions has been carried out including multicollinearity. Pearson' correlation was used for the correlation analysis. There was no existence of multicolinearity problem

Table 3: Correlation Matrix of Constructive Concepts

Variable	Islamic Ethical Knowledge	Religiosity	Prominence	Trust
Islamic Ethical Knowledge	1	0.896	0.771	0.694
Religiosity	0.896	1	0.819	0.777
Prominence	0.771	0.819	1	0.838
Trust	0.694	0.777	0.838	1





5. Conclusion and Suggestion

From the conduction of this study, customers do concern about the Islamic banks that comply with Sharia principle as long as Islamic Banks can maintain the relationship and moreover the information that provided into their customers.

Also, the test that has been conducted showed that the religiosity and the prominence of the bank, especially the recommendation within close people of a person, will give tremendous effect into Islamic ethical knowledge and will automatically improve the competitiveness of Islamic Banking in Indonesia. On the other hand, the trust towards bank indeed does not define the Islamic ethical knowledge of customer and the relation towards banking development.

However, this study was carried out only in Indonesia with the selected samples and the research only examined three independent variables whereby only two are found significant with the dependent variable. Further study needs to be carried out to address the unforeseen areas.

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