

IDENTIFYING THE FACTORS DETERMINING OF MUSLIMS' INTENTION TO ADOPT ISLAMIC BANKING IN THE LOCAL REGION: RELIGIOSITY AS MODERATING VARIABLE

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Abstract

Purpose of the study: This paper investigates factors that influence the Muslims' intention to adopt Islamic banking and to examine whether religiosity moderates the effect of those factors toward the Muslim's intention to adopt Islamic banking in South Sumatera.

Methodology: Primary data collected from six towns/districts in South Sumatera are obtained through questionnaires with the total respondents of 300. Using multiple regression analysis, we test whether attitude, social influence, bank reputation, and compliance on Islamic principles can affect the Muslims' intention in using Islamic banking.

Main Findings: We further crosscheck our findings through an interview with some of the respondents. We find that attitude, reputation, and compliance affect the intention to adopt Islamic banking significantly, whereas social influence is found to be insignificant. Our further finding explains that religiosity, which is represented by the dimension of Syariah and Ahlaq, cannot moderate the effect of an independent variable on the dependent variable.

Implications of this study: This implies that in increasing Islamic bank market share, managers of Islamic banks and also government cannot solely depend on religious factors. Our findings give insights to practitioners and regulators on what factors can affect Muslims' intention to use Islamic banking.

Novelty/Originality of this study: This study contributes as it extends the existing literature, any factors influencing the interest and intention of the Muslim community to adopt sharia banking as their banking activities. Some studies look at the direct effect of religiosity toward Islamic banking, however, it is different from previous studies because we put religiosity as a moderating variable.

Keywords: *Islamic Bank, Intention, Muslims, Attitude, Social, Religiosity.*

INTRODUCTION

Based on Act No. 10 the Year 1998, a bank has three main functions, namely, saving, financing, and transfer services. Furthermore, Islamic bank refers to those banks that implement Islamic principles in its operation. In Indonesia, Islamic banks can be categorized under the Islamic Bank and Islamic rural banks (Based on Act No. 22 the Year 2008). One of the principles of Islamic banking is the prohibition of usury or unjust, in which it can be translated as exploitative gains made in business or trade. This principle is based on Al-Quran as it is stated in the chapter of Al-Baqarah verse 275.

Indonesia, as a country with the biggest Muslim community, is still experiencing a slow growth of Islamic banking compared to Iran, Malaysia, and Pakistan. Based on the number of the Muslim population, it can be assumed that Indonesia should have a high growth of Islamic banking and market share. However, in 2016, the market share of Islamic banking is only 4.87% out of the total national banking ([Otoritas Jasa Keuangan, 2017](#)). [Thambiah, Hishamuddin Ismail, Ahmed, & Khin \(2013\)](#) explains the reasons for this low market share may be due to the lack of awareness, low infrastructure and quality of the Islamic banking and conventional banks are believed to have more 'non-technical' advantages than Islamic banking.

Several studies have investigated the customer's perception of Islamic banking. [Abiah & Wabekwa \(2012\)](#) state that many people believe that Islamic banking only provides services to only Muslims, resulting in a low market share of Islamic banks in Nigeria. Furthermore, [Hassan \(2007\)](#) explains that people in Pakistan are still unaware of the concept of *riba*, which leads to a misunderstanding of Islamic banks. However, a study conducted in Malaysia by [Saad & Mubasshera \(2015\)](#) finds that many people who know the concept of *riba* are still using conventional banks due to their familiarity with the services. Other studies also have explored only on the level of efficiency of Islamic banking ([Sufian, 2007](#); [Yudistira, 2004](#); [Yuliana, Suhel, & Bashir, 2017](#)).

A study by [Thambiah et al. \(2013\)](#) also explains that religiosity is still an important factor in affecting customer's choices on Islamic banking. This is supported by [Filfian \(2015\)](#) that conducts a study in Saudi Arabia and finds that the service quality plays an important role in customer's decision making as well as the need that is related to religiosity. Furthermore, [Ahmad, Rahman, Ali, & Seman \(2008\)](#) find three variables that impact customer's choice on Islamic banking, namely, attitude, social influence, and religious obligation. The research shows that factors related to religiosity are important to be explored in its relation to the intention of using Islamic Banking.

This study tries to explore the level of interest of the community in Indonesia on Islamic banking, as similar studies are still limited. Some studies look at the direct effect of religiosity toward Islamic banking, such as the study conducted by [Abou-Youssef, Kortam, Abou-Aish, & El-Bassiouny \(2015\)](#) and [Soma, Primiana, Wiryono, & Febrian \(2017\)](#). Our study also specifically tries to investigate how factors such as attitude, social influence, compliance, and bank reputation in influencing customer's desire to adopt Islamic banking in Indonesia. However, it is different from previous studies because we put religiosity as a moderating variable.

This contribution can as it extends the existing literature on factors that led to the low interest and intention of the Muslim community to use sharia banking as their banking activities. This study also will give insights to the government and Islamic bank managers on how to increase Islamic banking market share. The reminders of the paper will proceed as follows. Section two will describe the related literature and theories used in this study. Section three will focus on methodology. Results and discussion are presented in Section four and the last section presents conclude the study.

LITERATURE REVIEW

The belief that state Islamic banks do not comply fully with sharia law (Islamic principles) is very famous among the Muslims. This is one of the reasons why the market share is still low in Indonesia. [Butt et al. \(2011\)](#) support this idea that such belief along with the small network and un-strategic location of Islamic banking causes the low preferences of the customer in Islamic banks. Another perception that is spread among the customers is that many still believe that Islamic banks only provide services to Muslims ([Abiah & Wabekwa, 2012](#)). A study conducted by [Abiah & Wabekwa \(2012\)](#) in Nigeria found that there is a misconception as the customers of Islamic banks are limited to Muslims, which drives the low market share of Islamic banking. Furthermore, [Echchabi & Azouzi\(2015\)](#) also find that awareness, uncertainty, compatibility, and subjective norms play an important role in customers' decision making. [Almahy, Al-sahn, & Beloucif \(2014\)](#) and [Soma, Primiana, Wiryono, & Febrian \(2017\)](#) also states that attitude affects customers' choice on Islamic banking. These studies point out that people's attitude such as their view on Islamic banking affects their choice on whether they should use Islamic banking.

Furthermore, it is believed that in making choices or decision making, people are affected by their peers. The same goes for the case of choosing Islamic banking as their bank service. [Ahmad, Rahman, Ali, & Seman \(2008\)](#) and [Soma et al. \(2017\)](#) finds that along with attitude and bank reputation, individual tendencies to choose Islamic banking is also affected by social influence. The social influence, in this case, refers to the perception of friends and family that suggest individuals use Islamic banks.

Bank reputation refers to a bank's image based on its existence, operation, service, and products. Access to Islamic banking seems to play an important role in customers' preferences or intentions. [Butt et al. \(2011\)](#) state that the un-strategic place of Islamic banks and the small network it has affect's choice in using Islamic bank's service. [Saad & Mubasshera \(2015\)](#) also point out that customers' familiarity with conventional banks causes them to still use their service. This is similar to [Hassan \(2007\)](#) finds that many customers are still not confident in the operation of Islamic banks. Furthermore, [Bisharat \(2014\)](#) also states that besides the rate of return and Islamic teaching, bank reputation also influences Muslims' choice in an Islamic bank. Based on the understanding of the results of previous studies, the formulation of hypotheses in this study as we present the following:

- H1: Attitude has an impact on Muslims' intention in using Islamic Banking.
- H2: Social influence has an impact on Muslims' intention in using Islamic Banking.
- H3: Bank reputation has an impact on Muslims' intention in using Islamic Banking.
- H4: Compliance has an impact on Muslims' intention in using Islamic Banking.
- H5: Religiosity can increase the reasons for Muslims' intention in using Islamic Banking.

Figure 1 explains the relationship hypothesis between variables which also serve as study models that are adjusted based on the conceptual model.

METHODOLOGY

Our study tries to explore the determinants of customers' (community) intention, especially Muslims, in choosing Islamic banks as their bank service. We limit our sample study only to the Muslims in South Sumatera. We collected the primary data through questionnaires from six cities/districts in South Sumatera, namely, Palembang, Kayu Agung, Baturaja, Lubuk Linggau, Muara Beliti, and Lahat. The analysis approach in this study is quantitative by using linear regression models.

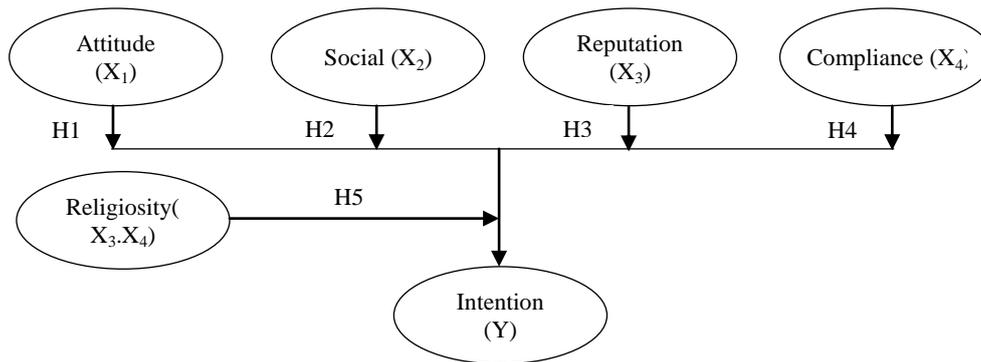


Figure 1:The study model of adjusted

Table 1: Distribution of Respondent Response Rate

No.	Town/District	Total Sample	Total Questionnaires Distributed	Response Rate (%)
1	Palembang	100	110	90.9
2	Lubuk Linggau	40	40	100
3	Muara Beliti	30	40	75
4	Lahat	30	50	60
5	Baturaja	50	60	83
6	Kayu Agung	50	50	100
Total		300	350	85.71

Source: *The primary data processed*

The sample is selected through convenient sampling and the survey is done through hand delivery. The following table represents the distribution of questionnaires. It can be seen that from Table 1, our response rate is quite high, with 85.71% and only Lubuk Linggau, which has 100% of the response rate. We construct our questionnaire by combining the statements (items) that may reflect each of the variables being measured based on the previous study. In measuring customer's (community) intention (Y), attitude (X₁) and social influence (X₂), we refer to a study conducted by [Souiden & Rani \(2015\)](#). While in terms of bank reputation (X₃), we follow [Almahy et al. \(2014\)](#) measurement, and compliance (X₄) variable refers to a study [Maswadeh \(2014\)](#). Each of the variables consists of 6 to 10 items and respondents are asked to rate them based on their personality/experience. The operational variable measurement is as follows:

Table 2: Operational Variable Measurement

Variable	Definition	Item	Scale
Attitude (X ₁) (see: Souiden & Rani, 2015)	One's attitude or view on sharia banking	6	Ordinal
Social (X ₂) (see: Souiden & Rani, 2015)	The influence a person gets from people around him/her in making a decision	6	Ordinal
Bank Reputation (X ₃) (see: Almahy et al., 2014)	Bank's image based on its existence, operation, service, and products	10	Ordinal
Compliance (X ₄) (see: Maswadeh, 2014)	The level of conformity of sharia principles with the operations and products of sharia banks	6	Ordinal
Intention(Y) (see: Souiden & Rani, 2015)	The magnitude of a person's desire or intention to use sharia banking to meet the needs of banking transactions.	5	Ordinal
Religiosity (Moderates) (see: Ahmad et al., 2008)	Sharia:		
	Obligation	5	Ordinal
	Recommendation	4	
	Prohibition	3	
	- Ahlaq	4	Ordinal
- Iman	7	Ordinal	

Source: *The sources various*

RESULT AND DISCUSSION

Table 3 represents the respondents' profile, and it can be seen that there is nearly an equal number of female (48.46%) and male (51.54%) respondents. In terms of education, the majority of the respondents have completed an undergraduate degree (52.56%), followed by those who have completed high school education or vocational study (31.06%). It can be concluded that most of the respondents have received higher education and can be assumed that they have reasonable knowledge of Islamic banks.

Table 3: Respondents Profile

Item	Respondent	Percentage (%)
Gender	Male	151
	Female	142
Education	Elementary School or Junior High	1
	High School or Vocational Study	91
	Undergraduate Degree	154
	Master Degree	47
	Doctoral Degree	0

Source: Author's calculation

Notes: Education refers to the level of education that respondents have completed. Total respondents: 293.

Factors affecting customers' intention

The regression result is presented in Table 3 and shows that the model used has a significant influence between the dependent and dependent variables (p-value is 0.000). However, based on the adjusted R-squared, the independent variables are only able to explain the dependent variable by 41.22% indicating that there are other variables outside the model that may affect Muslims' intention in using Islamic banks.

Table 4: Multiple Regression Results

Model	Coefficient	t-stat	Prob.
(Constant)	1.395	1.663	0.970
Attitude	0.365	6.562	0.000*
Social	0.034	0.612	0.541
Compliance	0.119	2.745	0.006*
Reputation	0.140	4.244	0.000*

Adjusted R-squared: 0.405, p-value: 0.000

Notes: *level of significance at 5%

Source: Author's calculation

From Table 4, it can be seen that attitude, compliance, and reputation has a significant effect on the intention of using Islamic banks. The finding on attitude is consistent with [Ahmad et al. \(2008\)](#) and [Butt et al. \(2011\)](#) in Pakistan that find that attitude has a positive effect on Islamic banks. Furthermore, a study by [Saad & Mubasshera \(2015\)](#) also finds similar findings in terms of the bank's compliance with sharia principles. The higher the perception of compliance, the higher the intention of using the Islamic bank. This is because many still believe conventional banks and Islamic banks are the same. Bank reputation is also found to have a positive and significant effect on the intention, which is also similar to the findings by [Ahmad et al. \(2008\)](#).

Different results are found in a variable of social influence that does not have a significant influence on the intention of the community in using sharia banking. This finding is different from [Ahmad et al. \(2008\)](#) and [Haque, Osman, & Ismail \(2009\)](#) who found social influence is a factor that can influence people in choosing their banking services. Therefore, it can be concluded that, in the selection of banking products, the people of South Sumatra cannot be influenced by their social environment.

Furthermore, this study found that religiosity cannot moderate the influence of independent variables (attitudes, compliance, reputation, and social influence) on the dependent variable. This means that the variables of religious obedience represented by the sharia and *ahlaq* dimensions cannot increase/weaken the influence of attitudes, compliance, reputation and social influence on the desire to use sharia banks. This finding differs from the results of [Ahmad et al. \(2008\)](#) and [Rehman & Masood \(2012\)](#), where all studies have found that religious factors have a significant influence on people's willingness to use sharia banks. However, these results are in line with the findings of [Che-Ha et al. \(2016\)](#) who argue that religious obedience cannot be used to influence society.

This implies that in making banking decisions, religious factors do not affect the community. Therefore, banks should not rely on various obedience factors in marketing sharia banking [Echchabi & Olaniyi \(2012\)](#). The argument of the invention can be explained that religious observance and selection of banking products are two very different things, where society does not base their choices on their beliefs. This is reinforced by interviews with respondents who argue that sharia and conventional banks are the same. [El-Gamal \(2006\)](#) supports this finding, which states that sharia products must be identical to conventional financial products so they can be accepted and allowed by banking policymakers. Therefore, sharia and conventional banking are still often considered the same.

Furthermore, there are still many respondents who know about the concept of *riba* (usury) but still use conventional banking because it considers that the interest of conventional banks not including usury. This can be explained by the findings of [Saad & Mubasshera \(2015\)](#), which state that bank interest is considered not *riba* because it is not an excessive gain and is considered to be a compensation of a high rate of inflation. The results imply that in increasing the market share of Islamic banking, managers of banks or the government cannot depend on religious factors alone. However, factors that have more influence on the intention are the ease of access, quality of service, and competence of employees.

CONCLUSIONS

This study examines the factors that influence the community's intention to use sharia bank as well as to examine whether religiosity is the reason that strengthens the people of South Sumatera to become a customer in sharia bank. The results show that the attitudes, compliance, the reputation of the bank have a significant influence on the intention while the social effect was found to not affect the desire to use Islamic banks. Furthermore, in terms of religiosity which is represented by the dimensions of sharia and ahlaq, it is found that the moderation variable cannot reinforce the reason of South Sumatran society becoming a sharia bank customer.

LIMITATION AND STUDY FORWARD

The Muslim intention model for adopting Islamic banking in this study can be used as a basis for developing effective marketing strategies for Islamic banking in Muslim majority countries. This study uses a sample from South Sumatra Province one of the 33 provinces in Indonesia. This is possibly one of the reasons why religiosity does not function as a moderating variable. Among those 33 provinces, the level of religiosity of the society varies. Therefore, if the sample comes from other provinces, the result possibly reveals differences that could enrich the findings. The findings reveal that religiosity does not moderate attitude, social influence, bank reputation and compliance on customers' intention to adopt Islamic bank. This finding is different general logic which implies that the more religious somebody, the more interest she/he to subscribe to an Islamic bank. Therefore in the future, it is crucial to study other regions/provinces with larger samples to confirm that religiosity indeed plays an important role in Islamic bank adoption.

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AUTHOR CONTRIBUTION

Isnurhadi is the main researcher; he contributes to generating research ideas, writing a proposal and writing the research report and paper draft. **Zakaria Wahab** is coresearcher, he is responsible for writing questionnaires and collecting data. He contributes to writing a discussion of the draft of the paper. **Fida Muthia** is coresearchers well, she is responsible for data analysis and translating paper from the Indonesian language into English. **Abdul Bashir** is responsible for paper editing and corresponding with journal editors, he is also responsible for correcting paper based on a suggestion from journal editors.

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