

# Customers' Preference in Choosing Islamic Banks

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**Abstract**—This study aims to find factors that affecting customers' preference in choosing Islamic bank. The data is collected through questionnaires spread to Islamic banks' customers in seven cities and district in South Sumatera. The total questionnaires that can be used in the analysis is 509 questionnaires. The data is then analysed using mean ranking to see the factors that prioritized by the customers. The finding shows that staff friendliness, shariah compliance and fast and efficient banking service are found to be the factors that considered important by the customers. The customers also show a little concern on interest loan and saving offered by Islamic banks as they rank very low in the mean score ranking. This study gives insight to policy makers on factors that need attention in increasing the market share of Islamic banks in Indonesia.

**Keywords:** *Islamic bank, customer's preference, mean rank*

## I. INTRODUCTION

Islamic bank growth is quite rapid but its market share is still far behind compared to conventional bank market share. This is indicated by the fact that conventional bank third-party funds are 20 times that of third-party funds collected by Islamic banking. This reflects that the public still tends to use conventional banks rather than Islamic banks. People's preferences and perceptions of Islamic banks and conventional banks are influenced by many factors including knowledge, image of the institution, services, accessibility, facilities and promotion.

To be able to attract the interest of people using Islamic banks, Islamic banks need to understand the behavior and needs of their customers in the form of needs, interests, concerns and their life style. Thus, it is essential for a bank to know the main factors that influence customers in choosing an Islamic bank. The strategy to achieve this is by understanding customer behavior and preferences so that they feel satisfied being a bank customer [1]–[3]. This is important so that Islamic banks can increase the number of their customers so that the market share of Islamic banks will be balanced with conventional banks, especially considering that Indonesia

as the country with the largest Muslim population in the world is actively developing Islamic banking.

The findings that have been obtained from previous studies vary so that more studies are needed to get conclusive findings, especially by using large samples to obtain a more comprehensive picture. In general, studies that have been carried out include whether there are differences in customer perceptions of Islamic banking attributes and what are the main attributes that are the main consideration of Islamic bank customers when they make their choices. The aim of this study is to determine what characteristics that customers consider important in selecting Islamic banks.

## II. LITERATURE REVIEW

The criteria for bank selection by customers have been widely studied abroad, for example in Malaysia, Pakistan and several countries in the Middle East region. [4] examines how students are chosen in a bank. The study identified nine criteria covering five banks. The findings of this study indicate that students place more emphasis on the pricing and product dimensions of bank services. This finding is in line with the findings of several other researchers such as [5] [6] [7].

A somewhat different study was carried out by [8] about the factors that influence the selection of sharia banking by customers. This study found a significant positive relationship between service quality, service availability, social perspective and trust in banks and customer perceptions of Islamic banking. This implicitly states that customers give high priority to factors such as service quality and bank reliability in the selection criteria [1][2][3] found similar things.

Many researchers such as [9][10][11][12] use the following selection criteria: reputation and bank image, recommendations from third parties, convenience / comfort, professional advice, results of savings, interest rates, employee competence and familiarity, bank size, personal efficiency, location, advertising, revenue, transaction costs, bank networks and bank prestige.

Furthermore, sharia-related factors were also studied by several researchers such as [13][14][8].

One of the main differences between Islamic banks and conventional commercial banks is the Islamic aspect. Thus estimated aspects of the Islamic religion will be the main criteria in choosing Islamic banking. This thesis is supported by several studies such as [15]–[17]. However, these findings are not in line with findings by [18][19] who find that factors related to Islam are not the main factors and the only factors that influence the selection of Islamic banks are not even considered by customers in choose Islamic banking.

In the Indonesian context, studies on the criteria for selecting Islamic banks by customers are still relatively small. In this case [20] examines the factors that motivate customers to save in Islamic banks and prove the relationship between economic and religious preferences that motivate customers to save in Islamic banks. The findings show that the decision to choose to save at Islamic banks is influenced by economic factors such as economic benefits, fast service, online facilities, and easily accessible locations, including a healthy financial system. Furthermore, the decision to save at Islamic banks is also influenced by religious factors such as reducing economic imbalances in the community, having good knowledge of Islamic principles, obtaining knowledge related to Islamic banks, including living in a religious environment. Furthermore, external factors such as the encouragement of parents, relatives, friends and bank employees including the encouragement of scholars also influence the customer's decision to save at Islamic banks.

[21] conducted a study of students from 3 universities in Yogyakarta about the preferences of Muslim customers not using Islamic banks. The findings show that preferences, knowledge, service, administrative profit, product and religious variables have a positive and significant effect on the preferences of Muslim customers not using Islamic banks.

From the results of previous research studies, aspects of religion / sharia or sharia bank conformity to sharia law are not the only factors that encourage customers to choose sharia bank products and not even the main factors of customers choosing sharia banks as their subscription banks. Thus in this study, to provide a comprehensive framework of the attributes that are most important for customers when choosing an Islamic bank, all the attributes examined in previous studies will be included as much as possible in this study.

### III. METHODOLOGY

The population of this study is Islamic bank's customers in South Sumatera. The sample is selected based on convenient sampling in which 550 questionnaires are given to the customers in 5 cities and district in South Sumatera, namely, Palembang, Lahat, Lubuk Linggau, Babat Toman, Muara Beliti, Kayu Agung and Prabumulih. Out of 550 questionnaires, only 509 questionnaires that can be used for further analysis.

The questionnaire is divided into two parts. The first part consists of the demographics information of the respondents and the second part consist of 24 statements on Islamic bank characteristics that includes Sharia

reputation, Service quality, Sharia work environment, Employee competence & knowledge, Financial reputation & image, Freedom, credibility, Professional advice, Network bank, Confidence that inspires customers, Social responsibility, Friendly employees, Product prices, Product quality, Transaction fees, savings yield, credit availability, location, advertising, receipts, prestige, bank size, recommendations from third parties. All statements are asked on five-point likert scale, ranging 1 for "not important at all" to 5 for "very important".

### IV. ANALYSIS AND DISCUSSION

TABLE I. CUSTOMERS PRIORITIES TOWARDS ISLAMIC BANKING

Statement	Mean	Rank	Percentage
Employees friendliness	4.59	1	91.78%
Shariah compliance	4.57	2	91.39%
Fast and efficient service	4.56	3	91.23%
Bank secrecy	4.39	4	87.83%
Trust on bank management	4.36	5	87.13%
Bank reputation and image	4.31	6	86.24%
Easiness in saving	4.29	7	85.89%
Good front office service	4.21	8	84.28%
Comfortable interior	4.16	9	83.18%
Availability on financial consulting	4.09	10	81.89%
Good partition/content	4.08	11	81.61%
Product variation	4.03	12	80.59%
Good physical building	3.99	13	79.76%
Easiness in parking	3.93	14	78.59%
Recommendation from Ustadz	3.87	15	77.49%
Recommendation from family	3.83	16	76.50%
Availability of loan with low interest	3.68	17	73.70%
Low cheque cost	3.64	18	72.71%
Location near workplace	3.61	19	72.18%
Recommendation from friends	3.58	20	71.67%
Location near house	3.44	21	68.80%
Advertisement in social media	3.21	22	64.24%
Advertisement in mass media	3.20	23	64.05%
High saving interest	2.83	24	56.69%

Table 1 presents customers priorities towards Islamic banking based on the mean scores. It can be seen than there is three statements with mean score more than 4.5 in the mean ranking. It shows that "employee friendliness", "shariah compliance" and "fast and efficient service" are the factors with the highest mean score. It is quiet surprising as "employee friendliness" is considered as the most important factor in choosing Islamic banking. However, "shariah compliance" and "fast and efficient service" are inline with the result of the previous study by [22]. It indicates that customer choose Islamic bank because they believe that Islamic bank operates based on shariah compliance and prefer fast and efficient service.

There are at least nine statements with mean score less than 4.5 and more than 4, namely, "bank secrecy", "trust on bank management", "bank reputation and image", "easiness in saving", "good front office service", "availability on financial consulting", "good partition/content" and "product variation". It seems that customer find it important for bank to be secretive with customer credentials, have a good trust and reputation, meaning that, before customer choose to use the service of one Islamic bank, they tend to make decision whether they can trust the bank or not or whether the bank have a good reputation. It also seems that the availability of financial

consulting given by bank is not considered as important for the customer as it does not have high mean score. This indicates that customer make the decision based on their own knowledge or experience.

The next influential factors on customer preference in Islamic banks is good physical building, easiness in parking, recommendation from ustadz and recommendation from family, that score less than 4 but more than 3.7. This finding quiet interesting as it can be divided into two categories: bank physical appearance and recommendation. It appears that customers consider important on the bank physical appearance and the easiness in parking. This might indicates that most of the bank customers own a vehicle and access the bank using their vehicles. Furthermore, recommendation from ustadz (scholar trained in Islam and Islamic law) is assumed to be important by customers in choosing Islamic banks. With the majority of Indonesian are muslims, many Indonesians follow the suggestion of an ustadz in their daily decision, especially in choosing Islamic banks as it is believed that involving in conventional bank is considered as riba.

Other factors that have mean score lower than 3.7 and more than 3.5 are “availability of loan with low interest”, “low cheque cost”, “location near workplace” and “recommendation from friends”. It is quiet surprising to find “availability of loan with low interest” belongs to one of the last factors that considered in choosing Islamic bank. It appears that loan offered by Islamic bank is not that important compared to other factors in above ranks. The belief that says there is no difference in loan interest offered by Islamic banks and conventional banks is might be true as proved by this finding.

The last four factors, which score less than 3.5, are “location near house”, “advertisement in social media”, “advertisement in mass media” and “high saving interest”. The mean score for advertisement in social media and mass media are relatively similar showing that customers do not make their decision based on the advertisement in media. The table also shows that, customers in Islamic bank show very little concern in saving interest offered by Islamic banks. The reason may be similar to the previous factor on loan interest that customers may belief that there is no difference between Islamic banks and conventional banks in regards to saving interest offered.

Based on the results found, it can be seen that customers prioritize staff friendliness, shariah compliance and fast and efficient banking service as the most important factors in choosing Islamic banks. Furthermore, factors such as low interest loan and high saving interest are shown to have low consideration in customer’s preferences. This may be caused by the notion that says there is no difference between Islamic banks and conventional banks in terms of interest they provided.

## V. CONCLUSION

This study on customers’ preference in Islamic banks show that the factors that are considered important by customers in choosing Islamic bank. Factors such as, staff friendliness, shariah compliance and fast and efficient banking service are found to be the main reasons for customers to use the service of Islamic banks. Furthermore, customers show a little interest in interest offered by Islamic banks. This study gives insight to the

policy maker and Islamic bank practitioners to increase the market share of Islamic bank in Indonesia. As this study is exclusively conducted in South Sumatera, further study, may want to expand the number of respondents or conduct in another province to gain a more comprehensive finding.

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