

# CHAPTER I

## INTRODUCTION

### 1.1. Background

The presence of Islamic financial institutions in Indonesia is still relatively new in the world of financial business in the world. Although it is new, Islamic financial institutions in Indonesia in their development have had a positive impact on the treasury of the banking and national economy (Asrifianti,2017). The development of Islamic financial institutions in Indonesia cannot be equated to other Muslim countries which have started to establish sharia institutions since the 1970s while Indonesia itself has only begun to develop sharia financial institutions first established in 1991 (Abdul,2018).<sup>1</sup> There are several types of Islamic financial institution in Indonesia which is bank financial institutions and non-bank financial institutions. Islamic financial institutions in the form of banks include Sharia Commercial Banks (BUS), Sharia Business Units (UUS), and Sharia People Financing Banks (Sharia Rural Banks). Non-bank Islamic financial institutions, including Baitul Mal Wa Tamwil (BMT), Islamic Pegadaian, Sharia Insurance, Sharia Mutual Funds, and others.

To support the activities of Islamic banks in accordance with the actual Islamic principles, the government provides provisions in Law No. 7 of 1992 concerning banks based on profit sharing principles which was later refined into Law No.10 of 1998 which initiated the implementation of the dual banking system in Indonesia, namely conventional banking and Islamic

---

<sup>1</sup> <https://business-law.binus.ac.id/2018/07/03/perkembangan-lembaga-perbankan-dan-keuangan-syariah-di-indonesia/>

banking and encouraging wider market share of Islamic banks. Since then, Muamalat Indonesia Sharia Bank (BMI) was established as the first sharia commercial bank in Indonesia and remained the only commercial bank operating sharia from 1992 to 1998. Until September 1999, Bank Muamalat Indonesia had 45 outlets spread in Jakarta, Bandung, Semarang, Surabaya, Balikpapan and Makassar. After 2000, Islamic financial institutions have increasingly developed over time<sup>2</sup>. Along with the development of Islamic financial institutions, Law no. 10 of 1998 is deemed insufficient and has now been changed to Law No. 21 of 2008 concerning sharia banking is everything related to sharia banks and sharia business units, including institutions, business activities, as well as ways and processes in carrying out their business activities. This support plays an active role in the development of Islamic banking in the economy in Indonesia.

Based on sharia banking statistics published by the Financial Services Authority (OJK) as of November 2019<sup>3</sup>, there are 14 Sharia Commercial Banks (BUS) in Indonesia with a total of 1,914 offices with details of 480 Branch Offices, 1,237 Supporting Branch Offices, and 197 Offices Cash with total assets of 335,482 billion rupiah. And the number of conventional commercial banks that have Islamic Sharia Units (UUS) in Indonesia there are 20 units with a number of UUS offices as many as 378 with details of 160 Branch Offices, 157 Sub-Branch Offices, and 61 Cash Offices with total assets of 172,279 billion rupiah. And there are 164 Sharia Rural Banks (BPRS) in Indonesia with 569 BPRS offices. However, the development of

---

<sup>2</sup> <http://akuntasisyariah.multiply.com/journal/item/2>

<sup>3</sup> <https://www.ojk.go.id/>, Statistik Perbankan Syariah – November 2019

Islamic banking financial institutions can not only be observed from the increasing number of Islamic bank offices. Also need to be observed from the amount of bank funds, because banks will not function at all in the absence of bank funds. The biggest source of bank funds is from the public, so the ability of banks to raise funds or called third-party funds (DPK) is an indicator in the growth rate of each bank. According to sharia banking statistics published by the Financial Services Authority (OJK) as of November 2019, the composition of third party funds, both in terms of demand deposits, savings and deposits, has always increased. Indicators of the development of Islamic banking business can be observed in table 1.1 below:

**Table 1.1**  
**Depositor Funds Composition of Sharia Commercial Bank and Sharia Business Unit (Billion Rupiahs)**

<b>Indicator</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
a. iB Wadia	47.033	54.344	61.192
1. Demand Deposits Wadia (giro)	24.897	26.435	28.776
2. iB Saving Deposits Wadia	22.137	27.909	33.417
b. Non-Profit Sharing Investment Fund	287.854	317.484	346.205
1. Demand Deposits (giro)	15.291	17.161	23.228
2. Saving Deposits	76.631	86.529	91.068
3. Time Deposits	196.202	213.794	231.908

**Source: Sharia Banking Statistics, November 2019. (www.ojk.go.id)**

The rapid growth of Islamic financial institutions in Indonesia is inseparable from the role of the Indonesian people themselves. With the composition of the population, which is predominantly Muslim, the development of Islamic financial institutions has more promising prospects. Islamic banks are not only devoted to the Muslim community, but anyone can use Islamic banking services. However, there are still many Muslim communities in Indonesia that have not yet decided to become customers of

Islamic banks and prefer to remain customers of conventional banks. According to some traders who need loans, stating credit in Islamic banks is a complicated and convoluted process (Harahap, 2014).

Misunderstanding of Islamic banks and other Islamic financial institutions shows that many people do not understand correctly what Islamic financial institutions are, how their operational concepts, how the system is used, what products are offered and what are the advantages of Islamic financial institutions when compared to conventional financial institutions. This should be a challenge for Islamic banking in increasing the promotion of product introduction, in order to meet the needs of customers at least in line with conventional banks in order to increase customer interest, especially the Muslim community.

Another problem faced by Islamic banks is that the public is accustomed to conventional banking institutions which have already served the banking needs of Indonesian people and are reluctant to switch to being customers of Islamic banking (Asrifianti, 2017). Generally people only know that Islamic banks are banks without interest and do not know anything about the mechanism of profit sharing. Islamic banks are also still seen as social institutions such as zakat distributors. Even though Islamic banking is not only engaged in the distribution of zakat and there are still many Islamic bank products that are not yet known to the public.

In terms of the number of Islamic banking accounts in Indonesia which shows 31.89 million sharia accounts out of a total of 301.69 million total accounts, which means that only about 10% of the total accounts are



customer accounts for sharia banks. Judging from the very large gap between the number of conventional bank accounts and Islamic banks, this can be one of the reasons the author examines what factors can affect the interest of the Indonesian people with a Muslim majority population as many as 87.2%<sup>4</sup> of the total population of 266.9 million Indonesian citizens<sup>5</sup> to choose to become customers of Islamic banks with islamic products offered, in this case a case study in Muslim communities in West Sumatra Province with the title "**Factors That Influence Muslim Customers in Choosing Products of Islamic Banks**"

### 1.2. Problem Definitions

- a) Does the knowledge factor about the products influences muslim customers in choosing the products offered by Islamic banks?
- b) Does the product information dissemination factor influences Muslim customers in choosing the products offered by Islamic banks?
- c) Does the profit margin factor influences Muslim customers in choosing products offered by Islamic banks?
- d) Does the service quality factor influences Muslim customers in choosing products offered by Islamic banks?

### 1.3. Research Objectives

This research aims to obtain empirical evidence about:

---

<sup>4</sup> <http://www.globalreligiousfutures.org/> data per tahun 2019

<sup>5</sup> <https://www.bps.go.id/> data per tahun 2019

- a) The influence of product knowledge on the selection of muslim customers in products offered by Islamic banks
- b) The influence of product information dissemination on the selection of muslim customers in products offered by Islamic banks
- c) The influence of profit margin on the selection of muslim customers in products offered by Islamic banks
- d) The influence of service quality on the selection of muslim customers in products offered by Islamic banks

#### 1.4. Research Benefits

This research is expected to provide benefits in the form of:

- a) For researcher

The results of this research are expected to provide insight and knowledge as well as be able to prove empirically about the influence of product knowledge, product information dissemination, profit margin, and service quality on the selection of muslim customers in products offered by Islamic banks.

- b) For academics

This research is expected to be able to develop scholarship and add to the list of references to enrich the literature related to the influence of product knowledge, dissemination of product information, profit margin, and service quality on the selection of muslim customers in products offered by Islamic banks.

c) For practitioners

The research is expected to provide input and evaluation for Islamic banking practitioners in the future efforts to develop Islamic banking to pay more attention to the influence of product knowledge, dissemination of product information, profit margin, and service quality on the decision of Muslim customers in choosing products offered by Islamic banks.

#### 1.5. The Scope of Research

This research was conducted to analyze the factors that influence the decision of muslim customers in choosing products offered by Islamic banks. This study focused product knowledge factor, product information dissemination factors, profit margin factors, and service quality factors.

#### 1.6. Writing Systematic

### CHAPTER I INTRODUCTION

The introduction will discuss the general description that becomes the basis of this research. It consists of background, problem definition, research objectives, research benefits, research scope, and writing systematic.

### CHAPTER II LITERATURE REVIEW

Literature Review discusses the theory that has the relationship with the research problem. This is useful as a rationale for solving problems. Moreover, this chapter also looks previous research, theoretical framework, and the hypothesis that will be tested in this research.

### CHAPTER III RESEARCH METHODS

Research method provides an overview of the plan for conducting the research. This chapter includes the research design, research model, operational definition and research variable, population and sampling, data and data collection method, and analysis method.

#### CHAPTER IV RESULTS AND DISCUSSION

This chapter will discuss the description of the research object and analysis as well as discussion of the research results regarding the influence of product knowledge, product information dissemination, profit margin, and service quality on the selection of muslim customers in choosing products offered by Islamic bank.

#### CHAPTER V CONCLUSIONS

Conclusions are drawn from the research results, limitations of this research, and also the suggestions for further research.

