

# Factors Affecting Decisions on Use of Islamic Financial Institutions

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**Abstract.** The purpose of this article examines the results of research on what factors affect the decision on the use of services of Islamic financial institutions. The method used in this research is the literature review. The results of more than 20 research results obtained that the factors that influence a person's decisions using the services of Islamic financial institutions proved significant. Factors that significantly influence the decisions on the services of Islamic financial institution are religiosity, information, promotion, product, price, location, process, bank employees, physical evidence, consumer psychology, motivation, perception, learning, knowledge, service quality, income, bank margin, trust, rational motives, cultural, social, and reputation.

**Keywords:** Factors; Decisions; Services; Financial Institutions; Islamic Banks

## 1 Introduction

Various things about people's interest in choosing Islamic banks are interesting topics. Several Islamic banks have sprung up in Indonesia beginning with the establishment of the Muamalat bank and followed by conventional banks that open sharia business units. Indeed, not all Islamic commercial banks have yet to fully open offices in all parts of Indonesia, but they have tried to open them in several major cities. Public awareness about the benefits gained from using Islamic banking services has triggered competition between conventional commercial banks and Islamic banks. Various services and intense promotions were carried out by Islamic banks. On the other hand, conventional commercial banks calmly fight the competition of Islamic banks because they rely on the interest that is definitely below the profit sharing of Islamic banks. This is the challenge for Islamic banks in attracting their customers.

Various studies on the reasons for choosing sharia banks have been carried out so that Islamic banks can improve their services. Some of these studies include Laili (2016) who has researched in one of the BPRS Surakarta. In his research said that the margin factor is the most dominant factor. Munajim & Anwar (2016) said that people in Cirebon want to become sharia bank customers because they know the Islamic characteristics possessed by Islamic banks.

Whereas Iranati (2017) said that, the people of South Tangerang chose to save at Islamic banks due to religiosity, bank products, trust, knowledge, and service. Harahap (2016) added that the amount of profit sharing offered by Islamic banks would make customers want to use

their services. Slightly different, Fitriyani's (2016) study said personal and psychological factors were the dominant factors.

Hanik & Handayani (2014) distinguish the reasons Polines and Undip students choose Islamic banks to be 2, namely the dominant external factors are products. While the dominant internal factors are personal factors. As with the research conducted by Liza (2017), the results revealed that internal factors had a positive and significant effect on the customer's decision to choose Islamic banks. However, the external factors have no significant positive effect. Abhimantra, Maulina, & Agustianingsih (2013) also examined students, only in their research aims to find out how these factors influence regression analysis. The results of his research said that knowledge, religiosity, product, reputation, and service did not significantly influence the selection of Islamic banks despite their positive influence.

IAIN Salatiga students also became a sample of research for Luthfiati (2015) and the results of her research said that their pocket money made them want to save in Islamic banks. The research conducted by Fatmawati (2015) was slightly different; the sample of the study was students of students of Wahid Hasyim Islamic boarding school in Sleman. The results obtained are also different from the results of research by Luthfiati (2015) because, for santri students, pocket money does not affect the interest in saving them to Islamic banks. Oktaviani (2016) in his research said that when Islamic banks carry out various innovations in their products, students' interest in using their services would increase.

In contrast to previous research, Nelvi (2015) for BNI Syariah Yogyakarta customers, products, prices, and learning are the most important factors in influencing the community to choose sharia banks positively and significantly. Asrifianti (2017) reveals the other side of why the Muslim community in Binjai is reluctant to become sharia bank customers even though they are Muslim. Surprisingly, the products, promotions, and services of Islamic banks there actually made people reluctant to choose them. However, in Lestari's research (2015) said that Muslim students in the city of Malang choose Islamic banks due to religiosity, bank products, trust, knowledge, and service.

If previously mentioned a lot about the reasons why students choose Islamic banks, Prihandono (2017) examines what factors influence lecturers to choose Islamic banks. The results of his research said that the higher the knowledge, religiosity and rational motives possessed by the lecturers, the higher their interest in becoming sharia bank customers. Maysaroh (2014) examined the customers of two state-owned Islamic banks. The factor that distinguishes from previous research turns out that culture also affects customers in choosing Islamic banks.

Nevertheless, in Kediri, Dwijayanti (2016) said that cultural factors do not affect customers in choosing Islamic banks. Whereas in Surabaya, the politeness factor of Islamic bank employees also determines the community to choose to use their services. Shifting to the city of Malang, the research conducted by Utomo (2014) suggested that Islamic banks need to increase public knowledge about Islamic banks because there is the knowledge that is the most important factor so that people choose Islamic banks.

From several studies in various regions of Indonesia, this study will examine the analysis of the factors why people want to use the services of Islamic financial institutions, either bank, BMTs or other institutions. From several studies will be carried out studies to find the factors that influence it and can be universally accepted.

## 2 Research Method

The research methodology is included in the type of literature review. The population consists of 21 studies obtained online on the internet. Of the 21 studies, a sample was selected purposively and obtained two articles. Articles are selected based on the quality of the journal, the journal indexed in Science and Technology Index (Sinta). Sinta was chosen because it is a credible indexer at this time.

## 3 Results and Analysis

Islamic banking is starting to be in great demand by people in various countries. Research related to the factors that influence public interest to save in Islamic banks has been widely done. There were 21 studies that were obtained online and two of them were selected for analysis. Results of Research conducted by Zainuddin et al. (2016) namely there are five factors or known as the factor five that affects the customer's decision to choose a sharia bank.

The five factors include: (1) the first factor consisting of variable perceived quality, process, and brand awareness; (2) the second factor consisting of variable social, perceived value, and physical evidence; (3) a third factor consisting of social, pricing, people, and promotion variables; (4) the fourth factor consisting of personal variables and products; (5) the fifth factor which consists of variable culture, place, and physical evidence. Of the most dominant variables influencing is the process variable because it has the highest loading factor. This research is at PT Bank Syariah Mandiri Ciputat Branch with a total sample of 100 customers. The sampling method uses convenience sampling.

While the research conducted by Andespa (2017) obtained results that there are five factors that influence people's interest to save in Islamic banks, namely social factors, cultural factors, probate factors, factor marketing mix, and psychological factors. Variables that have a loading value > 0.5 are 16 variables that are included in four factors. These variables are reference groups, lifestyle, age and life cycle, learning, motivation, personality and self-concept, beliefs and attitudes, perceptions, social classes, roles and status, distribution, products, promotion, culture and family, prices. This was done in West Sumatra where the number of research samples was 250 Islamic bank customers who were taken using the convenience sampling method.

From these two studies, it can conclude that the factors that are prove to influence significantly the decision to use sharia financial services are knowledge, trust, religiosity, consumer psychology, learning, perception, motivation, rational motives, promotion, product, price, location, information, quality of service, process, bank employees, physical evidence, bank income, margin, social, culture and reputation.

a. Factors of knowledge, trust, and religiosity.

Factors that influence the decision to use services from the first Islamic financial institutions are knowledge, and trust, religiosity. Community confidence encourages people's decision to choose Islamic financial institutions. According to Andespa (2017), community beliefs can originate from knowledge and trust. Knowledge and trust are rational and not emotional. Someone will act according to his or her knowledge, beliefs and beliefs. Good public beliefs and attitudes towards Islamic financial institutions will form a good image of the Islamic financial institutions in the community's view. Then Islamic financial institutions must be able to educate the public and form good beliefs from the community.

Religiosity is the internalization of beliefs / religious values in a person. Internalization here relates to the belief in religious teachings both in the heart and in speech. Every religious teaching regulates human life in all dimensions of both faiths, worship, and all aspects of human life, and in matters relating to the economy. Currently, the existence of Islamic financial institutions in Indonesia is growing. Starting from the Islamic banking industry, the Islamic non-bank financial industry, and the Islamic capital market. The community believes that the working system of Islamic financial institutions is in accordance with their views on life, religion, and beliefs. Religion teaches not all goods and services can be consumed. In accordance with religious teachings, a consumer consume halal goods and services is allowed.

b. Factors of motivation, perception, learning, consumer psychology and rational motives

In relation to consumer (community), decisions in choosing Islamic financial institutions, one of the influencing factors is consumer psychology. Base on consumers psychology is the existence of motivation, perception, learning, trust, and attitudes that can make consumers make purchases. The motivation of consumers is very influential in decision-making. Motivation, in this case, is motivation based on rational motives. Motivation based on rational, consumers will determine the choice of a product by thinking carefully by considering first to buy the product. Kotler (2009) states that perception is the process by which we choose, organize and translate information input to create a meaningful world picture. Every individual has a tendency to give meaning to the stimuli he receives with the knowledge and experience he has, then the individual responds to the stimuli he receives.

c. Promotional, product, price and location factors

Factors of information, promotion, product, price, and location are factors that influence the decision to use the services of Islamic financial institutions. The marketing mix factor, which consists of prices, products, promotions, and processes, is still very influential in the selection of Islamic financial institutions. This is of concern to customers because the prices offered by Islamic financial institutions are more attractive than conventional financial institutions. The products offered must be more variation and the promotional media used is more attractive so that the target customers who are saving in Islamic banks are not only Muslims but also non-Muslim communities.

d. Factors of information, service quality, process, bank employees, and physical evidence

The next factor that influences a person to choose a sharia financial institution is the system and management of the financial institution that consists of information that customers obtain, quality and service process, attitudes of bank employees, and physical evidence provided to customers. Information that customers obtains can related to the transparency and accountability of Islamic financial institutions to the community (prospective customers). Islamic financial institutions must provide information that is beneficial to prospective customers.

Furthermore, the quality of services provided by Islamic financial institutions known as excellent service. Excellent service is a term translation of "excellent service" which literally means the best or very good service. It is can call very well or best because it is in accordance with the applicable service, standards or service providers owned. In the concept of marketing, a company is not enough just to produce quality goods or services at attractive prices, which must be carried out by the company is to put customer satisfaction as the main goal of the company.

e. Bank income and margin factors

Murabahah income and margins have components that can influence the rise of murabahah margin, one of which can be seen from the profit-sharing expectations or known as the cost of funds, overhead costs or operational costs, profits or known as expected yield, risk premium or known as allowance for earning asset losses (PPAP). Amad (2006) suggests that overhead costs

are costs incurred by banks in their operational activities, which consist of labor costs, administration, allowance for earning assets losses, etc. Wiros (2005) regarding murabahah margin income is: Upon receipt of murabahah installments made in cash, there is a cash inflow on murabahah margin income so that murabahah margin income is an element of income in the calculation of the distribution of operating results to be distributed to customers. In addition to overhead costs, another factor that influences murabahah margin income is target profit and financing volume. The financing volume is essentially a murabahah financing whose balance is always relate from one month to the next (Ahmad; 2006).

f. Cultural and social factors

Kotler and Keller stated that several factors influence consumer-buying behavior, namely culture, social, personal, and psychological. Among social factors consisting of family, role, and status, a family that has a very strong influence on purchasing behavior (Lamb, Hair, and McDaniel (2011). The family is one of the most important purchasing organizations in society (Kotler and Armstrong, 2010) It should also be noted that cultural factors are one of the determinants of specialization and social character that distinguishes from other cultures (Kotler and Armstrong, (2010); Lamb, Hair, and McDaniel, (2011). Islamic banking must pay attention to culture in the surrounding community especially in Indonesia, which has a diverse cultural pattern, how is the culture adopted in the community that is take into consideration by the management of Islamic banks.

g. Reputation factor

Reputation is a concept related to the image and assessment of outsiders on the quality of a product that comes from the company's performance in the past. The good and bad reputation of a product can be influence by the customer's experience, someone's recommendations, media coverage, and the company's public relations (Shah Alam and Yasin 2010). Islamic financial institutions must be able to build a good reputation by doing excellent service to customers, media coverage, and through public relations.

## 4 Conclusion and Implication

Conclusions and implications in this study are the basis of consideration by the management of Islamic banks to pay attention to the factors that attract the public in using sharia financial services including factors that have proven to have a significant effect on decisions in using Islamic financial institutions. That is namely religiosity, information, promotion, products, prices, location, process, bank employees, physical evidence, consumer psychology, motivation, perception, learning, knowledge, service quality, income, bank margins, trust, rational motives, culture, social, and reputation.

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