

## CHAPTER 1

### INTRODUCTION

#### A. Background of the study

Islamic banking at national and international level is new and dynamic. Islamic banking may be broadly defined as system of banking that is consistent with Islamic law principles and guided by Islamic economics. The contemporary movement of Islamic finance is based on the belief that any and all forms of interest (*riba*) settlements, imprudent and uncertainty (*gharar*) or gambling (*maysir*) that is speculation are prohibited (Abduh & Omar, 2012).

The initial, trial, Islamic bank was set up in the late 1950s in a remote area in Pakistan that charged no interest Wilson (1983) followed by Malaysia in the mid 1940's but was unsuccessful Khan S.R (1983). The most inventive and successful trial interest-free banking occurred in rural Egypt, in the Middle East where rural or municipal banks operated three accounts these were the first ever recorded in modern times.

In Indonesia shariah banking market share remains low, whilst nearly 83 percent of the population observe Islamic faith. This implies that the country, Southeast Asia's largest economy, accommodates more than 262 million Muslims. Nonetheless, from 2015, assets managed by Islamic financial institutions in Indonesia account only 5 percent out of the nation's total banking assets. In comparison, Malaysia has 61 percent of its

population that numbers just about 30 million people as Muslim. Its Islamic financial institutions manage 20 percent of the country's total banking assets. An outstanding contrast that shows both the impoverishedness of the Indonesian Islamic finance industry and their limited awareness of Islamic banking. ([www.indonesia-investments.com](http://www.indonesia-investments.com)).

Since 1992 Indonesia developed the practise of shariah banking, the basis used was the law no.07 of 1992 and later perfected by the parliament in 1998 into law no.10 1998 which in it regulated shariah banking more clearly. While commercial bank is a bank conducting business activities based on shariah principles in its activities providing services in payment. Shariah principle is a rule of agreement based on islamic law between bank and other party to save funds. Islamic banks have observed rapid growth throughout the world in terms of quantity, volume and quality. Islamic banks strive to understand the customers' attitudes towards their products and services to obtain customers' loyalty.

Fishbein and Ajzen (1975) and Thurstone (1931), proposed that attitude is the extent to influence somebody or against some object. Behavioral intentions are explained as a person's intent to perform a behavior. Attitude is measured with bipolar affective or evaluative features relative to an attitudinal object and that behavioral intentions are measured by the subjective probability of performing a given behavior. Fishbein and Ajzen (1975, p.11) concluded that the differences between attitude and intentions are not only defended but necessary. They presented a theoretical

framework in which attitude toward an object is based on beliefs about that object, and in turn attitude controls a set of behavioral intentions relative to that object, with distinct behavioral intentions leading to distinct behaviors with respect to the object.

Previous review of the study by Awan & Azhar 2014 that revealed the relationship between consumer behavior towards customer satisfaction findings showed positive and significant relationship among all variables towards customer. Al-Hunnayan & Abdullah Al-Mutairi (2016) examined the main factors that motivate customers to deal with Islamic banks (IBs) in Kuwait and explored items needed by customers to develop IBs services to improve their market position.

When it comes down to bank selection the shariah-compliant attribute/religious motive is an important factor before an individual decides to patronize an Islamic bank (Abduh & Omar,2012). Islamic bank customers in Indonesia are found to be more satisfied by service quality that is measured basing on bank-staff, profitability, bank-physical appearance, accessibility, and costs/charges (Muhamad, Salina , & Zainurin , 2012).

The rise of Islamic principles pertained to contemporary business is a new occurrence. Islamic rationality is based on a strict approach to Shariah (the written legal system of Islam) in an economic environment. In reality the concepts and practise between the perceptions of society and practice of practitioners varies in the image of Islamic banks (Wulandari & Subagio,

2015 ). These normative and reality differences bring about different attitudes and behaviours that are shown by Islamic banking customers in using Islamic products or services in Indonesia. Aspects of behaviour, motivation, attitudes and knowledge of usury, shariah banking in general has different accentuation. Thus through this study, it is expected to contribute substantially to development of marketing studies and consumer behaviour in the field of Islamic research.

Customer satisfaction is a consumers post consumption judgement if a product or service gives a satisfying level of consumption-related fulfilment or not? Boshoff & Gray (2004) discussed that satisfaction relies on the customer's perception rather than the product or service. That is to say customer's perception resulting from the value received. It is further elucidated as "a cognitive or affective reaction that emerges in response to a single or prolonged set of service encounters". As the main aspect of Islamic banking leading to customer loyalty and eventually to customer retention.

As customer satisfaction might be the only true competitive advantage for banks in the banking sector. Any bank would want to form a relationship between its customers and the bank as this has the largest impact on customer satisfaction unlike pushing their services to the customers. Factors that influence customer satisfaction in the banking sector include; interpersonal communication and treating the call center like a cost center

as providing a quality call center can help improve customer experience (Chin & Christina, 1986).

Measuring customer satisfaction regularly is the key to retaining customers one measure includes the SERVQUAL scale by Parasuraman (1998) for measuring quality of service, part of it was adopted in this research. The second measure that can be adopted is the Net Promoter Score it describes customer's intention to recommend a company's service to their friends. Third is the American Customer Satisfaction Index to measure customers' perceived satisfaction with different firms.

Based on the background above, the author will carry out a study on the **“Assessment of Consumer Attitude and Behavior towards Shariah Banking Services”**.

## **B. Problem statement**

1. Does religious motive have an impact on customer satisfaction ?
2. Does service quality have an impact on customer satisfaction?
3. Does low charge have an impact on customer satisfaction?

## **C. Objective of the research**

1. To analyse the effect of religious motive on customer satisfaction?
2. To analyse the effect of service quality on customer satisfaction?
3. To analyse the effect of low service charges customer satisfaction?

#### **D. Contribution of the research**

The expected benefits are as follows:

1. The practical benefit of this research is expected to give information to the parties who are competent to the development of Islamic banking management in Indonesia.
2. The theoretical benefit of this research will be to increase the Islamic economic theory, especially in the field of consumer behavior analysis and marketing.
3. Benefit for policy makers will be to provide support of data and thoughts for policy makers in Surakarta.