Preferences of Consumers in Choosing Sharia Banking Services (Case Study 4 University in Ternate)

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ABSTRACT

This study aims to analyze the factors that affect consumer preferences in choosing Islamic banking services. The data were collected by distributing questionnaires, with 186 respondents selected as the samples from four universities in Ternate. Confirmatory Factor Analysis (CPA) was used for the data analysis in which the internal and external factors existed. The interpretation on indicator numbers of each factor was devoted to increase factor interpretation factor and determine models based on loading factor. Overall, the results indicate 11 indicators affecting consumers' preference to Islamic banking services in Ternate. For one thing, the results of research indicate that consumers' knowledge about type of banks does not affect their preference. This implies no correlation between them due to no clear understanding about religious affiliation influences to the selection of banks. In addition, the results showed family factors affect the consumers' preference in choosing banks. It means family support influences the choice. Moreover, numerous product choices do not moderate consumers' preference. This study contends that information from media influences consumers' preference. The higher the access to information media, the more chances consumers will opt for Islamic bank services. The factor analysis data management result reveals 11 items while KMO test value is 0,793> 0,5. Thus, it is feasible to use. This meaning that support is very influential on the choice, the results mention the product does not affect on the effectiveness of melting is more and more product. The choice of consumers to a product, the result of research mention information from the media on the selection of bank have influence. The higher the access of information media, the more chance consumers choose sharia bank service. The result of data management by using factor analysis is 11 items while KMO value in factor analysis test 0.793>0.5 then KMO value above factor analysis is feasible to use.

Keywords: Consumer Preferences, Islamic Banking Services

INTRODUCTION

The development of sharia banks in Indonesia today can be considered very is reputedly expeditious. Competition in the banking world is also increasingly stringent. This condition requires the banking market players to work hard to improve or maintain the competitiveness of banks. As the country with the largest Muslim population, Indonesia has great potential to operate and develop the services of sharia banks. The Islamic banking system is a supporting tool for realizing the goals of the social and economic system of Islam (Setiawan, 2006).

The development of the role of sharia banking cannot be separated inseparable from the banking system in general. Sharia banking system is also regulated set out in Law

no. 10/1998 whereby in which commercial bank is are banks those. Conducting conventional business activities or based on sharia principles whose activities provide services in the payment traffic.

If only based on Religious reasons, it does not necessarily affect to the behavior of the community against the decision in using a type of banking services preference. And Non-economic aspect factors are unquestionably also expected to influence the interaction of society to banking world. By understanding knowledge of the community's preferences, banks (Sharia or conventional) have a strong decision to design strategies and policies to be more market driven. The existence of muslim society are against conversational banking due to their operational activities that are but in line with basic values of sharia financial system, apart from their understanding that bank's interest equals is usury prohibited in Islamic religion, also in bank operational activities that are not in line with the basic value of sharia financial system (Kasmir, 2012).

Therefore, sharia banking in Ternate City has become a benchmark for the success of sharia economic existence with the founding of Bank Muamalat as the first sharia banks that became pioneer for other sharia banks have previously implemented this system amid the proliferation of conventional banks. The emergence of Islamic banks in the city of Ternate in 2008 with the establishment of Bank Muamalat gradually. Sharia banks can meet the needs of people demanding banking with Islamic Sharia services. It is urgent as historically, Ternate was the center of propagation and development of Islam in the eastern part of Indonesia. This is indicated that consumer environmental has high influence on consumer to determine banking product. Therefore, the environment can influence the consumer preference to sharia bank services. The more information they have, the better decisions they make to choose products/services of conventional banks and sharia banks. If the marketers succeed in giving clear information about sharia banks, it could be consumers will consider choosing the services of sharia banking. Sharia banking will be even more achieve higher growth if people have a high demand and enthusiasm due to increased factors of understanding and information about sharia banks.

Islamic Bank
Sharia banks by operationally, different from conventional bank. One of the characteristic of Islamic banks is avoiding not to receiving or burdening interest to the customer, but to receive of charging for the results and other benefits in accordance with promised contract. The basic concept of Sharia bank is based on the teaching of Al-Quran and Sunnah. All products / services offered are must not in conflict against the Qur'an and Sunnah. Such names, in the practices, as intermediary institutions, insufficient or excessive funds and inadequate service pose a problem for them sometime still lack or excess funds or experiencing services problems.

According to Engel, et al (1982), individual actions and minds reflect their needs and objectives, if the ultimate goal is difficult to achieve, the individuals will choose a substitute goals or a temporary goal. Thus, the inconsistency of some informants is driven by the main objective is difficult to obtain. Individuals temporarily switches to a surrogate goal. Inconsistent informant actually wants a product that comes from of a non-interest-based bank. But however, due to dependence on a third party or a product of an Islamic bank still not according to his/her needs, the informant finally choose a conventional bank as the destination replacement.

Consumer Preferences

Consumer preference is consumer attitude toward a choice of products/services formed through evaluation in various options available. According Mankiw (2009) is based on three principles, namely:

1. Cost is what you sacrifice to get something. Since everyone is facing a tradeoff, then to make a decision on decide, we must compare costs and benefits, although sometimes the cost is not very unclear at the beginning. The opportunity cost is the things that we must be sacrificed to get something. To get something desired usually we has to sacrifice something else that is equally valuable
2. Think on limits
   Economists use the term marginal change. The marginal changes explain adjustments to a pre-existing work plan.
3. Incentives
   People make decisions by comparing advantages and costs. An individual will change if there is a change in advantage or cost.

Consumer preference is a consumer behavior on a choice of products/services formed through evaluation in various options that available. Consumer behavior is also influenced by the consumer situation, that arising from the factors that are closely related to time and place that is not depend on the consumer and the characteristics of the object (services and products) (Dwiastuti, et al, 2012).

Consumer Preference on Sharia Bank Financial Services

Consumer preferences on financial services of Sharia Banking Banks is a likes or dislikes decision by a person to the product (goods or services) consumed, that it assumed have two characteristics, namely:

a. Alternative is facing and taking action to make choices, like A rather than B, and prefer B rather than C, then that person should prefer A to C. Thus, one cannot articulate conflicting preferences.
b. Identification is a process of establishing the solving purpose of choice of expressing A rather than B. It means that all conditions under option A are preferred over the conditions under option B.

Factors Affecting Consumer Preference on Sharia Bank Financial Services

There are two factors that influence consumer decision that is internal and external factors. Internal factors is factors come from consumer itself that determine consume change de decision on product. According to Pride and Ferrel (1993) the factors that affect consumers in determining the choice of using financial services as follows:

a. Consumer knowledge directly or indirectly affects decision making. This knowledge includes product categories, brands, product terminology, product attributes or features, product prices and product beliefs.
b. Consumer Understanding
   Consumer understanding is all information owned by the consumer regarding various products and services and other understandings related to the products and services and other information relating to the all banking product. Consumer knowledge will influence purchasing decisions. According to Kotler et al (1997)
c. Family
   The influence of family is a factor that comes from consumer experience that

has affect directly or indirectly on consumer behavior in making decision. According to Sugeng (2010), in the family there are one or two person that have blood affiliated, interacting, and creating and maintaining a relationship.

External factors are everything that in outside of individuals that it's influence the dynamics of product/service development. According to Utami (2005), Consumer decision influenced by trust, and values of a product, as well as various factors in the consumer environment as follows:

a. Product Characteristics

Product characteristics are different conditions of a product comparing with the competitors that can offered to consumers to meet consumer satisfy. Each product has different characteristics, and loyal producers are always trying to create products that have its own characteristics. According to Sumarni (2002) argued that the process of decision of the segment is the stages through which the buyer in determining the choice to buy products and services.

b. Information from the media

Information from the media is the need of consumers who are driven to know about a more products to compare the specificity of the product that will be they needs. Information on matters relating to the problem at hand is important enough for decision makers to be evaluated (Kompas, 2005).

RESEARCH METHOD

This research type is explanatory research that is explaining the empirical phenomenon on research model framework. In other words, this study will examines and analyzes the concept framework that is factor in environmental indicators as well as individual factors affecting consumer preference in considering utilizing the services of Sharia banks in Ternate City.

Exploratory Factor Analysis (CPA)

Problem Formulation
Problem formulation needs to be clearly formulated from the analysis of these factors and the variables to be included should be applied based on the research, theories and opinions of the researchers.

$$Xi = Ai1F1 + Ai2FII + ... + AimFm + Ui \qquad .... (3)$$

Note:
Xi = standard 1 to standardized
Ai = Standardized Factor Analysis of (i) there is a component factor
F = component Factor
Ui = Unique Factor
M = Number of components

Loading Correlation Matrix
Correlation matrix can be identified certain variables that have with no relationship with to other variables, so that can be removed to exclude from the analysis. At this phase also known variables that correlated two variables with high correlation coefficient and variable are made one or one selected one for analysis (Barleets Test of Spehericity), then called the Kaiser Mayer Olkin (KMO) test is conducted to determine the adequacy

of the sample. Factor analysis is said to be feasible if the KMO value is 0.5 at least 0.5.

Determining Number of Factors

To determine how many factors can be accepted empirically accepted, can be done based on it is necessary to determine the eigenvalue of each factor that appears. The greater the eigenvalue of each factor. More representative factors are to represent for a group of variables. Factors selected factor having are those with eigenvalue of 0,5. Similarly, based on percentage of variance a factor can could be in a consideration of the consumer consideration if it has a value greater than 5%, and if based on the cumulative of variance then it could be used in the model.

Factor Rotation

By using the rotation of the matrix factors, transform the matrix factor into a simpler matrix so that it is for easy to interpretation. In this study, varimax rotation is used, because since it will be provided easier interpreted and give better results.

Interpretation of Factors

This by grouping factors that have with the highest loading factor in the factor. To interpreted the results of this study, a minimum loading factor of 0.5 was set and a factors having that with a loading factor of less than <0.5 is excluded from the model.

Determining Model Accuracy

The model's determination is to determine whether the model is able to explain well. The phenomenon of existing data needs to be tested by exploratory factor analysis technique (CPA) by looking at the residual amount between the observed correlations with the correlation produced.

RESULTS AND DISCUSSION

Overview of Sharia Banking in Ternate City

There are still many people who are still not associated with unwilling to advantage Sharia bank services, because Islamic bank are considered due their practice in transaction that do, whereas considered is unlawful in Islamic teaching. With the establishment of these Islamic banks, the moslem community that was reluctant to deal with sharia banks, will feel called to connect with Islamic bank. Additionally, this effort will also educate and guide people to think economically, business conduct in improving the quality of their lives (Karim, 2004).

Statistical Results

Result of KMO analysis resulted a value of 0.793 which means is greater than> 0.5. Meanwhile, the significant result of Bartlett Test is 0.000, as shown in Table 1.1 below.

Table 1. KMO and Bartlett Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.793
Bartlett's Test of Sphericity	Approx. Chi-Square	831.254
	Df	55
	Sig.	.000

Components were extracted of components and formed into three factors. Factor-1 component, which has 4,384 eigenvalues, and a factor-2 component, which has eigenvalues is 1.728, and factor-3 component, which has eigenvalues is 1.111, as shown in Table 1.2 below.

Table 2. Component Extraction Results

Component	Eigenvalues		
	Total	% of Variance	Cumulative %
1	4.384	39.857	39.857
2	1.728	15.710	55.568
3	1.111	10.099	65.667
4	.854	7.764	73.431
5	.716	6.507	79.938
6	.564	5.132	85.069
7	.453	4.121	89.190
8	.350	3.183	92.373
9	.306	2.783	95.156
10	.277	2.520	97.676
11	.256	2.324	100.000

The matrix factor analysis component has three third-factor factors with a sum of squares based on a factor-1 supplement with eigenvalues of 7,247, factor-2, with eigenvalues of 4,011, and factor-3, with eigenvalues of 4.05. The total number of variables in the 1.2 is the factor-1 of 0.658%, factor-2 of 0.364%, and factor-3 of 0.368%, as shown in Table 1.3 below

Table 3. Matrix Factor Analysis Components

Variables	Factor			Communality
	1	2	3	
X1.1.1	,566	,560	,416	,624
X1.1.2	,618	,387	,113	,545
X1.2.1	,649	,548	,259	,609
X1.2.2	,505	,651	,363	,649
X1.3.1	,715	-,685	,396	,823
X1.3.2	,546	-,624	,368	,823
X2.1.1	,666	-,169	,421	,649
X2.1.2	,731	-,061	,273	,612
X2.1.3	,806	-,112	,087	,670
e	,718	,020	,360	,645
X2.2.2	,727	,014	,211	,574
Sum of Squares (eigenvalue)	7.247	4.011	4.05	15.308
Percentage of Trace	0.658	0.364	0.368	1.390

Total variance shows that factor 1 has eigenvalues of 4,384, factor-2 has eigenvalues of 1,728, and factor-3 has eigenvalues of 1,111. The cumulative percentage of the three factors is 65.667%, as shown in Table 1.4 below.

Table 4. Total Variancee

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4,384	39,857	39,857	4,34	39,857	39,87
2	1,728	15,710	55,568	1,78	15,710	55,58
3	1,111	10,099	65,667	1,11	10,099	65,67
4	,854	7,764	73,431			
5	,716	6,507	79,938			
6	,564	5,132	85,069			
7	,453	4,121	89,190			
8	,350	3,183	92,373			
9	,306	2,783	95,156			
10	,277	2,520	97,676			
11	,256	2,324	100,000			

The three factors in this study are named according to the scattered variables grouped on these factors. Factor analysis does not specify the name of each factor generated. Each factor can be name based on a variable with a significant load. The name and concepts (meaning) of each factor are determined by the researchers based on the results of the research as shown in Table 1.5.

Table 5. Varimax Analysis Components

e	Varimax-Rotated Loadings Factor			Communality
	1	2	3	
X1.1.1		0.560		,624
X1.1.2	0.618			,545
X1.2.1		0.748		,609
X1.2.2		0.651		,649
X1.3.1			0.715	,823
X1.3.2	0.546			,823
X2.1.1	0.666			,649
X2.1.2	0.731			,612
X2.1.3	0.806			,670
X2.2.1	0.718			,645
X2.2.2		0.596		,574
Sum of Squares (Eigenvalue)	4.085	2.555	0.715	7.355
Percentage	0.371	0.232	0.065	0.668

of Trace				

The overall variables scattered into three factors determine the factors that are formed and have a correlation above 0.5 as shown in Table 1.6 below.

Table 6. Varimax Correlation Factors

Factor	1	2	3
1	.778	.583	.602
2	-.540	.672	-.740
3	-.627	.562	.540

Consumer Preferences in Choosing Sharia Banking Services

Factor-1: Differences of Bank Principles and Bank Products
Consumer decision is determined by the principle of banks and the quality of the product desired by the consumer allowing, the product becomes the main priority for the banks. There main issues that are closely related, including consumer expectations of the product or banks principles that affect customer satisfaction in making decisions. According to Muhammed (2012). One of the main factors' consumers choice for a bank is based on the quality of products provided by the bank. The better the quality of the product the more consumers choose the bank and vice versa.

Factor-2: Differences in Application of Bank Principles
Most consumers already have knowledge of sharia banks; however, they do not recognize the principles. The most influencing factor of consumer bank preference is the principle of the banks, so the decision of customers to choose Islamic banks still become a celebration of the application of the principle about the element of usury. Islamic banking various approaches are adopted to get consumer sympathy through technology and human resources. Competition provides satisfaction of service for the community to make choices according to their needs (Zaman, 2001). Increase the intensity of competition in a superior and more satisfying way as other competitors banks. Consequently, the attention of consumers to sharia banks is not only limited to the application of banks principles but the quality of the products produced can be accompanied by a conventional bank. As a step to fulfill customer's desire and requirement is inspirable with the availability of information concerning with banks principle and quality of product. Dissatisfied consumers will cause problems since they can disseminate their dissatisfaction to others (Wright, 2005).

Factor-3: Family Support and Recommendations
Support describes changes in individual choosing. It affects others since a person's learning process is often based on his experience. Being customers of sharia banks, responses or reactions occur that affect or convince each other, for the quality of products is also a determinant factor of consumer satisfaction in choosing banks. According Lupiyoadi (2006) quality is a blend of properties and characteristics that determine the extent to which the requirements of consumer needs are satisfied. The empirical facts show that conventional banks are improving the quality of services including customer risk insurance, the convenience of services and features to create customer convenience and customer satisfaction.

CONCLUSIONS

1. Most of the customers have recognized sharia banks and their operational principles. Due to their principles and operations are not addressed to customers, they do not really understand the principles, but however its application of sharia banking cannot be fully understood by the customer.
2. Customers prefer sharia banks due to religious factor and usury avoidance. Some customers choose sharia bank as they highly understand that sharia banks are conventional bank alike using sharia label.
3. Customers choose sharia banks because based on encouragement, knowledge in information and interest choice using sharias banks services.

Suggestions

1. The government should evaluate and analyze consumer decisions in choosing a bank in accordance with the conditions of consumers in the field and cooperate with the common people, such as MUI. In addition, the board should participate in the socialization process in the community because the basis of the lack of consumer interest in choosing a sharia banks consumer knowledge about sharia banks.
2. The banks must cooperate with the university to socialize the sharia bank systems and not merely the concept of sharia conventional label.
3. The local government must cooperate with the central government to provide the information media concerned with the sharia bank product becomes a celebration for the community with the sharia banking system, to avoid the supposition that shariah banks are considered the same as conventional banks.
4. The government and the banks must be able to cooperate and prove principles or usefulness of the products of sharia banks to provide a clear picture to the society in general.

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