

CHAPTER 1

INTRODUCTION

A. Background

As a Muslim, we have an obligation to fulfill Allah's command and avoid all prohibition. One of Allah's commands is by avoiding interest when we have economic transaction. There are some verses stating that interest is harmful. One of them is Al Baqarah verse 208.

يَأْتِيهَا الَّذِينَ ءَامَنُوا أَدْخُلُوا فِي السِّلْمِ كَافَّةً وَلَا تَتَّبِعُوا خُطُوَاتِ
الشَّيْطَانِ إِنَّهُ لَكُمْ عَدُوٌّ مُّبِينٌ ﴿٢٠٨﴾

Al- Baqarah 208 : “O you who have believed, enter into Islam completely [and perfectly] and do not follow the footsteps of Satan. Indeed, he is to you a clear enemy”.

Al – Baqarah 208 emphasizes that as a Muslim we must become a full Muslim. Being a Muslim is not just when we perform shalat, fasting or other prays. We must also involve Islamic principle in the financial aspect. To avoid *riba* or interest which exists in conventional financial institutions is a way to be full Muslim. Because of this reason, the Islamic financial institution appears to fulfill Muslim people's need. Based on Ariff (1998), Sharia bank tries to develop and improve their performance to serve the public need. He suggested Sharia bank to be innovative and competitive to obtain new customers.

First Islamic financial institution was established in Egypt by Ahmad El Najjar in 1971 as The Nasir Social Bank. In the same year, IDB was established by Organization of Islamic Countries (OIC). The Philippine Amanah Bank as the first Sharia bank in South-East Asia was established in 1973 (Ariff, 1988). Between 70s until 80s several international Islamic financial institution existed.

Sharia bank faces strong competition in the future with other conventional bankings around the world to obtain new customers. However, Sharia banking is able to survive and compete with other banks. Sharia banking is growing fast in the world because of some reasons. First, it is the increase of Muslim people in the world. This increase is followed by their need in financial aspect to have Full fledged Sharia bank account. Second, for non Muslim, they are also interested in Full fledged Sharia banking because the profit that they will obtain is clear (Zaher & Kabir, 2001).

In 2000s, many Islamic financial institutions obtained high profit. Setiawan (2006) mentions in 2005 that the number of Sharia banking in the world was around 520 banking with the money circling more than 400 billion Dolar. In 2004, Bank Islam Qatar obtained profit more than 302 billion Riyal Qatar.

The first Indonesian Full fledged Sharia bank is Bank Muamalat Indonesia established in 1992. After Bank Muamalat Indonesia was established, many Islamic financial institution appear especially Full fledged Sharia bank. OJK (2017) states that until January of 2017, the number of Full fledged Sharia bank's office in Indonesia is more than 1600 offices. According to Halim (2012), the factors that improve the development of Sharia banking in Indonesia are office

location which is easy to be accessed ; strong education & socialization program; and increase of services quality.

Over 20 years, Sharia banking in Indonesia has been established. The development is still lower if compared to other Muslim countries. Slow development in Indonesia can be seen by comparing the market segmentation and the total asset. The market segmentation in Indonesia is still below five percent until 2015. In 2011-2014, the market segmentation was 3,98%, 4,58%, 4,89% 4,85% and 4,60% (Fossei Organization, 2017). Sanjaya (2017) of Fossei Organization states that in July 2016 the market segmentation in Indonesia was 5,13% because of the changes of BPD Aceh to become Full fledged Sharia bank. The market segmentation is lower if compared to other countries in Middle East with 20% and Malaysia 10% (Hariadi, 2011).

By comparing total asset of Sharia banking industry in Indonesia with other Muslim countries, it is found that Indonesia Sharia banking asset is lower. Islamic Financial Country Index (IFCI) as part of Global Islamic Finance Report (GIFR) found that in 2016 Indonesia was in number six position from forty eight countries in the world. SMART (2016) as international research institution found that Indonesia is in the third category with total asset of USD 22 Billion. In addition to Indonesia as one of the lowest category, Pakistan (USD 12 Billion) is in this category as well. Meanwhile, the first category consist of Saudi Arabia (USD 291 Billion), Malaysia (USD 137 Billion) and UEA (USD 136 Billion), and the second category consists of Kuwait (USD 89 Billion), Qatar (USD 72 Billion) and Turkey (USD 45 Billion).

The result from slow development of Sharia banking in Indonesia make the number of customer also decrease. OJK (2015) in beritasatu.com (2015) states that in 2015 the number of Sharia banking customer was around 15 billion people and conventional banking was around 80 billion people. Thus, if we compare Sharia bank to conventional bank, the number of Sharia commercial bank customer is around 18,75%.

Many challenges are faced by Sharia banking in Indonesia to develop their bank. Ariff (1988) states that Sharia banking needs to be innovative to compete with commercial bank. Rahmanti (2012) and Halim (2012) argued that factor of Full fledged Sharia bank officer's capability as the main point of Sharia banking development. The other challenges for Sharia banking are sustainability of education and socialization program of Sharia banking (Halim, 2012). Looking at this fact, the number of Sharia banking in Indonesia needs to be improved, especially Full fledged Sharia banking because Full fledged Sharia banking is Sharia banking which are commonly used by people.

TABLE 1.1
Comparison between Asset of Full fledged Sharia banking and Commercial Conventional Banking in Indonesia

	Full fledged Sharia banking (in Billion rupiah)				Commercial Conventional Banking (in Billion rupiah)			
	2017	2016	2015	2014	2017	2016	2015	2014
Total Asset	275.946	254.184	213.423	204.961	6.874.454	6.475.6218	5.915.724	5.410.189

Source : OJK (2017)

The total asset of Full fledged Sharia banking in Indonesia is lower compared to commercial conventional bankings in Indonesia. According to OJK (2017), the total asset of commercial conventional banking in Indonesia is Rp 6.874.454

billion and total asset of Full fledged Sharia banking is Rp 275.946 billion. Not just in 2017, in previous years also the total asset of Full fledged Sharia banking is lower than commercial conventional banking.

TABLE 1.2
Comparison between Number of Full fledged Sharia banking Office and Commercial Conventional Banking Office in Indonesia

	Full fledged Sharia banking				Commercial Conventional Banking			
	2017	2016	2015	2014	2017	2016	2015	2014
Total Office	1.850	1.776	1.990	2.163	30.800	32.010	30.984	30.586

Source : OJK (2017)

The number of Full fledged Sharia banking in Indonesia is lower compared to commercial conventional bankings in Indonesia. According to OJK (2017), the number of commercial conventional banking in Indonesia is 30,800 offices and the number of commercial conventional banking is 1.850 offices. Not just in 2017, in previous years also the number of Full fledged Sharia banking also lower than commercial conventional banking

TABLE 1.3
Comparison of ROA between Number of Full fledged Sharia banking and Commercial Conventional Banking in Indonesia

	Full fledged Sharia banking (in percentage %)				Commercial Conventional Banking (in percentage %)			
	2017	2016	2015	2014	2017	2016	2015	2014
ROA	1	1,01	0,49	0,41	2,47	2,23	2,32	2,85

Source : OJK (2017)

The ROA is one of profitability ratio, means that the ROA useful to calculate the capability of the bank to obtain profit. The ROA comes from calculation of net profit after tax divided to average asset. Higher ROA value

means that the bank have good capability in obtaining profit. From the table above, the ROA value from 2014 until 2017 of Full fledged Sharia banking in Indonesia is always lower compared to commercial conventional bankings. Thus, we can conclude that the commercial conventional bankings is have good capability in obtaining profit rather than Full fledged Sharia bank.

Some analysis of total asset, number of office and ROA between Full fledged Sharia bank and commercial conventional bank shows the big gap differences. This big gap differences between Full fledged Sharia bank and commercial conventional bank in Indonesia shows that the Full fledged Sharia banking until now still can't compete with commercial bank even the majority of Indonesia's people is Muslim.

Based on the explanation above, the theory of constraints or TOC is proper to describe this situation. Mabin & Balderstone (2003) stated that theory of constraints is when organization has problem in their company and they try to find solution to solve the problem. Sharia banking industry needs to solve their problem related to the number of their customer. Sharia banking lacks of customers making their asset development and market segmentation is lower than conventional bank. Sharia banking needs to find reason or factor that effects Muslim people's willingness in saving at Full fledged Sharia bank. If the bank knows the factor, the problem will be solved and new customers will come.

Customer of Full fledged Sharia banking can be everyone including Muslim or non Muslim people, young or old, woman or man. One of Full fledged Sharia bank potential customers is undergraduate students or people with age between 18

until 24. Chigamba & Fatoki (2011), and Lewis (1982) state that students is potential customer for bank, it is because they need to save their money from their parents to pay their education cost or to pay rent for house. Eventhough most of undergraduate students doesn't have salary, they have big possibility to be an employee and have salary in the future. Lewis (1982) mentions that students aware that saving money is important for them. Thus, they need commercial bank to save their money. Because of this, we need to attract them to become Full fledged Sharia banking customer.

To increase the number of Full fledged Sharia banking customers especially students in Indonesia, we need their trust to make them willing to be a customer of Full fledged Sharia banking. Ibrahim (1995) explains that the factors that influence the public willingness such as reference, convenience, physical environment, community development, credit availability, timeliness, effeciency, safety and security. There are other factors that influence people in increasing their willingness in saving at Full fledged Sharia banking such as promotion, service, location, religiuisity, profit sharing, and reputation (Asnawi, 2016)

This research is the compilation and modification of several previous researches. The article used as the main reference of this research are from Blankson et al (2009); Chigamba & Fatoki (2011); Erol & El-Bdour (1989) and Hegazy (1995). Each researcher is from different countries around the world such as US, Ghana, and South Africa.

This research focuses on some variables that are proper for students in increasing their willingness in saving at Full fledged Sharia bank. The factors are

recommendation from parents (Blankson et al , 2009), location (Rao & Sharma, 2010), profit sharing (Erol & El-Bdour, 1989), religiosity (Sayani & Miniaoui, 2013), knowledge (Rammal & Zurbruegg, 2007) and financial information disclosure (Risdayanti, 2011). The reasons to choose these variables are explained below.

Recommendation from parents is important factor to influence students in saving at Full fledged Sharia banking. The money to save in bank comes from their parents, so their parents give advice to their children to use and save the money properly. Blankson, et al (2009) and Lewis (1982) argued that recommendation from parents give positive effect on their bank selection criteria. Phuong & Yin Har (2000) mentions that recommendation is the lowest factor bank selection criteria. Rifa (2015) states that motivation from parents not give positive impact toward student willingness. There is gap between the above research with what happen to Muslim students. Muslim students especially students with Islamic economic education background already get recommendation to use Sharia banking. The recommendation comes from lecturers who take a place as their parents in the campus. However, most of Muslim students still use commercial bank account, eventhough their lecturers already told to use Sharia account to avoid usury. This research gap makes this research also involves parents recommendation as variable in saving at Full fledged Sharia bank.

Place or location is important thing that the company needs to consider when they open their business. People usually prefer go to the store when the location is

strategic. This also happens for banking industry. According to Blankson, et al (2009); Chigamba & Fatoki (2011); Rao & Sharma (2010); Naser et al (1999); and Phuong & Yin Har (2000), location gives positive effect on increasing the willingness of students in saving at Full fledged Sharia bank. However, the research by Anderson et al (1976) finds that location does not really effect people in saving at banking. Research conducted by Ramadhan (2015) and Ernawati T (2015) find that there is no positive effect of location toward willingness in saving at Full fledged Sharia bank. The inconsistency of some previous researches above make this research also involve location as variable which effects students willingness.

The factor of profit sharing was also chosen in this research. It is because people used to consider how much profit they will obtain if they become a customer of Full fledged Sharia bank. Erol & El-Bdour (1989); Marimuthu et al (2010) and Awan & Shahzad (2011) argued that profit motivation as the significant major in saving at Full fledged Sharia bank. However, there is research gap between result of some researches above with the reality happening in Indonesia. Tribunjambi.com (2016) explains that many people think that Sharia banking doesn't have profit for customer because there is no interest for them. In addition, tempo.com (2013) mentions that people think the cost in Mudharabah is high, making them don't want to have Sharia bank account. Some problems happen in Indonesian people because they don't understand the mechanism of profit sharing in Full fledged Sharia bank, so there is no positive effect of positive

sharing toward people willingness. This research gap makes this research also involves profit sharing as variable in saving at Full fledged Sharia bank.

The next factor in this research is religiosity. When public heard about Full fledged Sharia bank, they usually think that Full fledged Sharia bank is just for Muslim people and just people with good religiosity that make Full fledged Sharia bank account. Sayani & Miniaoui (2013) argued that religiosity as the major factor compared to profit oriented. In contrast, the research conducted by Lestari (2016) and Gandasari (2016) finds that there is no positive effect of religiosity toward students of Muslim school willingness in saving at Sharia commercial bank. This inconsistency makes the variable of religiuisty is involved as the factor that affect Indonesian Muslim students willingness in saving at Full fledged Sharia bank.

Factor of knowledge also contributes as the factor that influence the willingness. Knowledge comes from education, experience and training. When someone has good knowledge in Islamic education, they have higher possibility to choose Sharia banking rather than people who do not have understanding in Sharia banking. Knowledge is important factor as argue by Rammal & Zurbruegg (2007) who show that Australian Muslim lacks of information in Sharia banking making them do not have Full fledged Sharia bank account. Hippy & Boku (2014) mention that knowledge has significant positive influence on the customer willingness in saving at Full fledged Sharia bank. The students who have Islamic educational background should have more information about Sharia banking rather than students without that educational background. However, some cases

found that although they have knowledge about Sharia banking, they still do not have Full fledged Sharia bank account, or even they have Full fledged Sharia bank account, they still have commercial account. This research gap makes this research also involve knowledge as variable in saving at Full fledged Sharia bank.

The last factor is the disclosure of financial information. Customers of bank need information of the bank to know whether the bank is still in the good condition or not. The information that customer needed in financial information such as the ratio of quick ratio that show how bank can develop the money from customers by using their current asset. The other information can be obtained from financial information such as bank ratio, assets to loan ratio CAR and etc. Dianto (2016) states that there is positive effect of financial information towards people willingness to become customers of Full fledged Sharia bank. Risdayanti (2011) states that financial information has positive significant effect of non Muslim students willingness in saving at Full fledged Sharia banking. However, there is a research from Rangkuti (2009) showing that there is no positive effect of financial information disclosure towards bank's customer willingness. This inconsistency makes the variable of financial information disclosure is involved as the factor that affect Indonesian Muslim students willingness in saving at Full fledged Sharia bank.

The differences between this research and the previous research are about the sample. Eventhough the sample is Muslim students, this research differentiates the background. The background is Muslim students who have Islamic economic education background and students who don't have Islamic economic education

background. Logically, the students who have background of Islamic economic education will prefer to choose Full fledged Sharia bank rather than conventional commercial bank because they already get the knowledge about Islamic economic from their class in campus. They already know about Islamic economy which explains that interest is forbidden. They also understand about the mechanism and system in Sharia banking.

This research is important because eventhough Muslim students with Islamic economic education background already take the course of Sharia bank mecanism and the Islamic principle has been involved by the lectures in reguler class, they still choose conventional bank, then if they have Sharia bank account, they still have another conventional bank account. This statement is also supported by Istiqomah (2015) who held for a research Sharia Banking students in STAIN Salatiga. In her research, she finds that eventhough the major of students is Sharia, more than 40% of the respondents don't have Sharia bank account. This research examines how the education background will effect to their preferences in saving.

Another difference about this research is the factor of parents recommendation. Previous research conducted by Blankson et al (2009) in US & Ghana and in South Africa by Chigamba & Fatoki (2011) used this variable in their research. In contrast, the research in Indonesia is very rare to use the variable of parents recommendation. Thus, this research carries out the variable of parents recommendation to know whether this factor is appropriate in Indonesia.

Based on the explanation above, the tittle of this research is “**Factors That Affect Muslim Students Willingness In Saving at Full Fledged Sharia Bank**”

(Comparative Study of Students with and without Islamic Economic Education Background)”

B. Research Scope

From the explanation of the background, the research scope is presented as follow :

1. Factors that effect the interest of Muslim students to choose the Sharia banks are recommendation from parents, location, profit sharing, religiosity, knowledge and financial information disclosure
2. Sample from this research is the students in the Jogjakarta. The students are from Universitas Negeri Yogyakarta (UNY), Universitas Pembangunan Nasional Yogyakarta (UPN), Universitas Muhammadiyah Yogyakarta (UMY) and Universitas Islam Negeri (UIN) Sunan Kalijaga. The students are from active Muslim accounting students who are easily to reach and meet by researcher.

C. Research Question

The researcher formulates the research questions as follow :

- 1.a. Is there any significant positive effect of recommendation from parents toward willingness of Muslim students with Islamic economic education background in saving at Full fledged Sharia bank ?
- 1.b. Is there any significant positive effect of recommendation from parents toward willingness of Muslim students without Islamic economic education background in saving at Full fledged Sharia bank ?

- 2.a. Is there any significant positive effect of location toward willingness of Muslim students with Islamic economic education background in saving at Full fledged Sharia bank ?
- 2.b. Is there any significant positive effect of location toward willingness of Muslim students without Islamic economic education background in saving at Full fledged Sharia bank ?
- 3.a. Is there any significant positive effect of profit sharing toward willingness of Muslim students with Islamic economic education background in saving at Full fledged Sharia bank ?
- 3.b. Is there any significant positive effect of profit sharing toward willingness of Muslim students without Islamic economic education background in saving at Full fledged Sharia bank ?
- 4.a. Is there any significant positive effect of religiosity toward willingness of Muslim students with Islamic economic education background in saving at Full fledged Sharia bank ?
- 4.b. Is there any significant positive effect of religiosity toward willingness of Muslim students without Islamic economic education background in saving at Full fledged Sharia bank ?
- 5.a. Is there any significant positive effect of knowledge toward willingness of Muslim students with Islamic economic education background in saving at Full fledged Sharia bank ?

5.b. Is there any significant positive effect of knowledge toward willingness of Muslim students without Islamic economic education background in saving at Full fledged Sharia bank ?

6.a. Is there any significant positive effect of financial information disclosure toward willingness of Muslim students with Islamic economic education background in saving at Full fledged Sharia bank ?

6.b. Is there any significant positive effect of financial information disclosure toward willingness of Muslim students without Islamic economic education background in saving at Full fledged Sharia bank ?

D. Research Objective

From the explanation of research scope, the researcher formulates the research objective as follow :

1. To examine and find empirical evidence of significant positive effect on recommendation from parents toward willingness of Muslim students with Islamic economic education background in saving at Full fledged Sharia bank
2. To examine and find empirical evidence of significant positive effect on recommendation from parents toward willingness of Muslim students without Islamic economic education background in saving at Full fledged Sharia bank
3. To examine and find empirical evidence of significant positive effect on location toward willingness of Muslim students with Islamic economic education background in saving at Full fledged Sharia bank

4. To examine and find empirical evidence of significant positive effect on location toward willingness of Muslim students without Islamic economic education background in saving at Full fledged Sharia bank
5. To examine and find empirical evidence of significant positive effect on profit sharing toward willingness of Muslim students with Islamic economic education background in saving at Full fledged Sharia bank
6. To examine and find empirical evidence of significant positive effect on profit sharing toward willingness of Muslim students without Islamic economic education background in saving at Full fledged Sharia bank
7. To examine and find empirical evidence of significant positive effect on religiosity toward willingness of Muslim students with Islamic economic education background in saving at Full fledged Sharia bank
8. To examine and find empirical evidence of significant positive effect on religiosity toward willingness of Muslim students without Islamic economic education background in saving at Full fledged Sharia bank
9. To examine and find empirical evidence of significant positive effect on knowledge toward willingness of Muslim students with Islamic economic education background in saving at Full fledged Sharia bank
10. To examine and find empirical evidence of significant positive effect on knowledge toward willingness of Muslim students without Islamic economic education background in saving at Full fledged Sharia bank
11. To examine and find empirical evidence of significant positive effect on financial information disclosure toward willingness of Muslim students

with Islamic economic education background in saving at Full fledged Sharia bank

12. To examine and find empirical evidence of significant positive effect on financial information disclosure toward willingness of Muslim students without Islamic economic education background in saving at Full fledged Sharia bank

E. Research Function

From the explanation of research objectives, the functions of this research are as follow :

1. Theoretical Function

To improve the knowledge in the economy related to the theory of recommendation from parents, location, profit sharing, religiosity, knowledge and financial information disclosure to increase willingness in saving at Full fledged Sharia bank.

2. Pratical Function

- a. For banking practitioner : It is used to give the marketing information that will help Sharia bank to increase the number of their customers.
- b. For the researcher : It is used to give give new knowledge about factors that influence the willingness of customers to become bank customers.
- c. For other researcher : It is used to used as the reference for the next research.