

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Around 40 million of the world's 1.6 billion Muslims are now clients of the Islamic finance industry, which has surged in popularity since its days as a small niche market in the early 1970s. The International Monetary Fund (IMF), the World Bank, and other global economic bodies estimate that the assets of Islamic financial institutions grew ninefold to \$1.8 trillion between 2003 and last year. They are estimated to have already crossed the \$2 trillion mark. The industry, which spans more than 70 countries, could be worth \$4 trillion by 2020, according to forecasters including Standard and Poor's (<http://www.news.com.au>, retrieved on 15 July 2015).

Islamic banking refers to a system of banking or banking activity that is in consonance with the basic principles of *Sharia* (rules and values prescribed by Islam) Islam. Islamic banking is also known as interest free banking system. Islamic banking prohibits the acceptance of *Riba* or interest rate for receiving and lending money. In the Islamic banking system, businesses that offer any interest rates or services is strictly prohibited and it is actually considered *Haraam* (forbidden).

Islamic banking system origin can be traced back to the advent of Islam when the Holy Prophet himself conducted trading operations for his wife. The "*Mudarabah*" or Islamic partnership has been much appreciated by the business community of Muslims for centuries, but the concept of "*Riba*" or interest has gained very little persistence in ordinary transactions. Islamic Banking system began to evolve since the time of Harun Al-Rashid from Abbasid Caliphate (around 9th CE/ 4th Century of Hijriyah Calendar) when the practice of *shaq* (check), *qard* (credit), and money exchange are widely used.

Started from the 20<sup>th</sup> century liberation of Muslim world from colonial powers almost completed and widespread renaissance of Islamic ideology took its path in Muslim societies, modifications through Islamic point of view towards the existing social system are proposed to further development. The Muslim thinkers and

philosophers challenged the world's ruling economic and social systems and uncovered their weaknesses. Capitalism was examined and criticized in detail due to its magnitude and general acceptability in majority of leading societies of the world. *Shariah* Economic and Islamic Banking were introduced as countermeasure of the capitalism, where the *Shariah* prohibit the use of interest in all daily economic activities.

The first model of the Islamic banking system came in 1963 in Egypt. Ahmad Al Najjar is chief of the bank's founders and key features for the results on the philosophy of non-interest based on the Islamic Sharia. The bank's basic business model is to provide financial assistance and support for the results. By the end of 1970, several Islamic banking systems have been established throughout the Muslim world, including the first private commercial bank in Dubai in 1975, the Bahrain Islamic bank in 1979 and the Faisal Islamic bank of Sudan in 1977.

According to Nienhaus (1995) Islamic banks, in compliance with the welfare principle of Islam, offer facilities more or less the same segment of the economy as the conventional banks. The practices and situations are not so different from conventional banking such as the costs of funds are closely related to interest rates and guarantees are nearly as important in Islamic banks as they are in the conventional banks (Hassan, 1999). It is resulted from these statements the functions of sharia banking are conventional banking are not so different, exceptions are come from the prohibition of in islamic banking. Seeing sharia banking system as benefit, many international banks and many banks in Europe are adding sharia system in their bank.

Sharia/Islamic banking are wholly based on the teaching of Al Quran and the words of Holy Prophet Muhammad (PBUH), as the Sharia/Islamic laws are reflection on the commands of God and regulates all aspects in Islamic life, including the economic activities and systems. In Sharia/Islamic banking the application of interest and speculations are strictly forbidden as it is already explained in Al Quran, in Surah Al-Imran, Allah said that; *“O you who believe! Do not devour Riba multiplying it over and keep your duty to Allah that you may prosper”* (3:130). Same kind of prohibition regard fixed interest is also lead in Surah Ar-Rum (39), An-Nisa (160-161)

and Al-Baqarah (275-281) of Quran.

Benefit of Sharia systems towards economic itself are varied, it can be started from elimination for economic disparity where as Islamic economy encourage the charity for the poor, equal sharing of profit, prohibition on *riba* (fix rate of interest), *gharah* (speculation with high uncertainty), and gambling. The biggest advantage the customer of an Islamic bank enjoys is faith-based, giving him the satisfaction that he is dealing with Sharia-compliant products and services. Economically or financially, the pricing of products offered by both Islamic and conventional banks is likely to be at par, in order for them to stay competitive in the market.

Indonesia are widely known as major muslim citizen country, and among one of the largest muslim citizen in the world. Islamic banking in Indonesia already exist since 1992, where Bank Muamalat are the first Islamic bank in Indonesia and start to booming around 2000 and 2003. The operation of Islamic banking in Indonesia are regulated by Indonesian Banking Law Number 7 year 1992, then renewed government in 1998 (Bank Indonesia, 2013).

Bank Muamalat is the first and pioneer of Islamic Bank in Indonesia. Bank Muamalat was initiated by Majelis Ulama Indonesia (Indonesian Ulama Council) and Indonesian government on November 1, 1991 and started the first operation on May 1, 1992. With the apparent support of the exponent Association of Indonesian Muslim Intellectuals (ICMI) and some Muslim businessmen, the founding of Bank Muamalat also received the support of the community, as evidenced by the Company's commitment to purchase shares worth Rp 84 billion at the time of the signing of the Articles of Association. Furthermore, on the occasion of the establishment of warning at the Bogor Palace, acquired an additional commitment of the people of West Java that also invest Rp 106 billion. On October 27, 1994, just two years after its founding, Bank Muamalat succeeded in the title as a Foreign Exchange Bank. This recognition further strengthen its position as the first and leading Islamic bank in Indonesia with a variety of products and services are constantly being developed. In an effort to strengthen its capital base, Bank Muamalat looking for potential investors, and responded positively by the Islamic Development Bank (IDB) based in Jeddah, Saudi Arabia. On June 21, 1999 IDB officially became one of the shareholders of Bank

Muamalat. As per 2015, Bank Muamalat provides services to more than 4.3 million customers through 457 outlets spread across 33 provinces in Indonesia. Bank Muamalat network is also supported by an alliance through more than 4000 Online Post Office / SOPP throughout Indonesia, 1996 ATMs, and 95,000 merchant debit. Bank Muamalat is currently also the only Islamic bank has opened a branch abroad, namely in Kuala Lumpur, Malaysia. To improve the accessibility of customers in Malaysia, in cooperation with the network run Malaysian Electronic Payment System (MEPS) so that services can be accessed Bank Muamalat of more than 2000 ATMs in Malaysia.

According to Kotler and Keller (2006) there are several factors influencing behavior of purchasing of consumer, which are cultural, social-economy and personal, these factor also including the religious point of view, and subjective norm of the personal point of view. According Mulitama (2006) one important factor influencing decision a Muslim to do purchasing of financial products is religious values. Religious value and culture also considered as factor influencing the purchase of Islamic Bank customers, most Muslims will use Sharia Bank service to show themselves as true Muslim faithful and feel lack of religious attributes if they do not have an Islamic Bank account.

Subjective norms are one's perceptions or assumptions about others' expectations of certain behaviors that one will or will not perform. Since this perception is very subjective in nature, this dimension is referred to as subjective norms. Similar attitudes towards behavior, subjective norms are also influenced by beliefs. The two are distinct however. Attitudes towards behavior are a function of belief in the behavior (behavioral belief) that will be performed, while subjective norms are a function of one's beliefs that are formed by others in one's life (Fishbein & Ajzen, 1975; Hanno & Violette, 1996, Eagly and Chaiken, 1993).

Eagly & Chaiken (1993) argue that attitude is a psychological tendency which is shown in the evaluation on certain entities with some degree of favor or disfavor. This psychological tendency inherently exists in every individual in the form of evaluation covering all types and categories of evaluation, both overt and covert, or in cognitive, affective and conative forms. Shook & Bratianu (2010) state that one forms

one's attitude based on one's beliefs in the possible outcomes. The more favorable the possibility is, the stronger the intention to do the behavior will be, and vice versa: the less favorable the outcome possibility is, the weaker the intention to do the behavior will be.

Trust as catalyst business relationship banks with its customers have been recognized by many sides, but still little evidence empiric being conclusive that supports strong correlation between trust customers by profitability in the company. Argument important can propose of these is trust customers will affect orientation long-term customers in business with a bank (Muawanah, 2010).

Based on the phenomenon and theory that being elaborated, this research then aimed to gain the insights the influence of Religious View, Subjective Norms, Attitude and Customer Trust on Customers' Decision to Open *Sharia* Account at Bank Muamalat.

## **1.2 Research Problems**

1. Does Religious View have significant effect on Customer Decision to open *Sharia* account at Bank Muamalat?
2. Does Subjective Norm have significant effect on Customer Decision to open *Sharia* account at Bank Muamalat?
3. Does Attitude have significant effect on Customer Decision to open *Sharia* account at Bank Muamalat?
4. Does Customer Trust have significant effect on Customer Decision to open *Sharia* account at Bank Muamalat?

## **1.3 Research Objectives**

1. To identify the effect of Religious View on Customer Decision to open *Sharia* account at Bank Muamalat?
2. To identify the effect of Subjective Norm on Customer Decision to open *Sharia* account at Bank Muamalat?
3. To identify the effect of Attitude on Customer Decision to open *Sharia* account at Bank Muamalat?

4. To identify the effect of Customer Trust on Customer Decision to open *Sharia* account at Bank Muamalat?

## **1.4 Research Contributions**

### **1.4.1 Future Research About Sharia Bank**

This research can be used as references in the further research about Islamic Banking System, especially if it is more focusing on Religious View, Subjective Norms, Attitude and Customer Trust.

### **1.4.2 Company**

This research is expected to assist Bank Muamalat and other Sharia Banks in Indonesia to study about the factors which encourage the customers to choose Sharia Bank. This research can be used as references to gain advantage for Sharia Bank to compete in the banking market in Indonesia. This research can be used as a reference to help advancing Sharia Bank in Indonesia.

## **1.5 Research Limitations**

The focus of this research is identification towards customers' decision to open Sharia account. The following are the affecting factors: Religious View, Subjective Norms, Attitude and Customer Trust. The subject of this research will be customers of Bank Muamalat Surabaya.

## **1.6 Research Outline**

Research outline explains the systematic writing of this study. The outline is divided into five chapters as follows:

### Chapter I

This chapter sets up the research problem for the reader. It also provides the background information defining the issue and important terms. It specifies the research objectives explored in greater detail to contribute to understanding the research problem.

## Chapter II

This chapter summarizes the major studies and findings that have been published on the research topic and how this study contributes or adds to what has already been studied. This chapter also states a clear description of theories that apply to the research problem, an explanation of why it is relevant, and how the modeling efforts address the hypothesis to be tested.

## Chapter III

This chapter explains the detailed technical and scientific activities which include the research design, sampling plan, instrumentation, statistical tools, and treatment of data.

## Chapter IV

This chapter organizes a logical presentation of the findings that address the research questions, and focus on how these key findings relate back to the theory and prior researchers presented at the beginning of the study.

## Chapter V

This chapter outlines the implications, conclusions, and recommendation supposed to advance the study of the research topic by its theoretical, methodological, or substantive contributions that may be necessary to overcome the limitations of existing empirical facts.