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## Consumer Decision Making in Conventional Banks and Islamic Bank based on Quality of Service Perception

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### Abstract

A high level of competition between Islamic and conventional banking is occurring in Indonesia. They use quality of service as a winning strategy. The objective of this study is to describe and understand customer decision-making in terms of perception of the differences in the quality of services between Islamic and conventional banking. This study is a qualitative research with phenomenological approach. The respondent of the study is Bank Muamalat and Bank Rakyat Indonesia customer. Interviews and documentation are used for data collection. Techniques of analysis involved in this study are data collection, data reduction, data presentation, and conclusion.

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**Keywords:** Islamic banking; conventional banking; qualitative research; decision making; perception; quality of service

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### 1. Introduction

Financial institutions in Indonesia begin to apply Islamic (sharia) principles in 1992. The first commercial bank that applies the principles of sharia is Bank Muamalat. In addition to Islamic banks there are conventional banks, that running their business conventionally. Based on regulation (UU RI) Number 21/ 2008, the principle of sharia in banking activities based on fatwas issued by agencies that have authority in setting it. Implementation of sharia principle in banking industry using the principle of profit sharing rather than interest as applied in conventional banks. Islamic bank conducted its activities based on the Qur'an and the Hadith which is the foundation of Islam. In contrast

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to conventional banks that are taking advantage of the application of interest in activities.

Customer perception of the values expected from each bank will affect them in choosing between banks with Islamic principles and conventional banks. Banks that have been chosen by the customer will explain their reason using the selected bank, so they made the decision through understanding and consideration. The behavior of bank customers to the services used (conventional banks and Islamic banks) can be influenced by the environment toward the bank characteristics, so each bank has a different customer. Bank Muamalat as per 2013 grows their market share to 24% (increase 1% from 2012) and the asset reach Rp 54.9 Triliun (Wiyanto, 2014).

The respondents in this study are the customers of Bank Muamalat and Bank BRI. The easiest thing that can be perceived by customers is the principle in the distribution of profits from transactions carried out. Bank Muamalat which is the first Islamic bank and a pioneer for Islamic banks had already implemented a profit sharing system, so customers do not have to worry and also customer can conducting transactions using ATM Muamalat to transfer to another bank account for free. If Bank Muamalat is the first Islamic bank emerged, in contrast to Bank BRI which is a conventional bank which is able to reach outlying villages in their network. People quite familiar with the BRI because extensive network coverage. BRI is able to reach remote areas. In addition, people look for BRI because the ease to obtain and use the services of the bank. Bank BRI branch unit has been able to reach remote villages and their ATM also has spread in many regions so easy to make cash withdrawals. This research is based on the phenomena arise in a society that customers has a reasons while choosing between Muamalat Bank and Bank BRI in Jember. The research comparing customer reason in choosing their banking services using qualitative approach.

## 2. Problem Statement

The growing of banking industry between Bank Muamalat and Bank BRI in Jember which is has a different system in the implementation of interest and profit sharing also has result in different customers type. Each client has its own reasons to choose, especially when it viewed from the side of the quality of services offered by the banks.

## 3. Purposes

The purpose of this research is to understand and describe the perception of the public in decision-making in terms of differences in the quality of services of Islamic banks and conventional banks.

## 4. Literature Review

Islamic bank is a bank in which their activity is based on the Qur'an and hadith. According to Sulhan and Ely (2008:125) islamic bank is a bank that is in running their business based on the principles of Islam. Islamic banks do not recognize the interest system, but they used revenue sharing for their customers. Basically principles of Islamic banks requires all funds raised in the Islamic banking system is managed with high integrity and very carefully. Revenue sharing system will bring benefits more equitable for all parties, both for the owner of the fund and the bank as fund manager.

Determination of the risk is made at the time the contract was made with reference to the possibility of profit and loss. The value of the revenue sharing is depend on business profits or project being undertaken. If it does not benefit then the loss will be shared by both parties. Prohibition of riba would be a strategy on the elimination of the injustices in the midst of today's society. As well explained in the Al Baqarah verse 278-279 :

يَا أَيُّهَا الَّذِينَ آمَنُوا اتَّقُوا اللَّهَ وَذَرُوا مَا بَقِيَ مِنَ الرِّبَا إِن كُنتُمْ مُؤْمِنِينَ (٢٧٨)  
فَإِنْ لَمْ تَفْعَلُوا فَأْذَنُوا بِحَرْبٍ مِنَ اللَّهِ وَرَسُولِهِ وَإِنْ تُبْتِمْ فَلَكُمْ رُءُوسُ أَمْوَالِكُمْ لَا تَظْلِمُونَ وَلَا تُظْلَمُونَ (٢٧٩)

Meaning : *O' you who have Faith! be in awe of Allah, and forgo what remains (due to you) of usury, if you are faithful. But if you do (it) not, then be you apprised for war from Allah and (His Apostle, and if you repent, you shall have your capital; (thus) deal you not unjustly (with others), nor you be dealt with unjustly.*

Economic relations based on Islamic law is determined by the relationship of aqad which are consists of five concepts of aqad. Those five concept are: the principle of pure deposits (al'Wadiah), profit sharing (Syirkah), the principle of buying and selling (at-Tijarah), the principle of the lease (al-Ijara) and the principle of service/ fee (al-Ajr walumullah). Islamic banks and other Islamic non-bank financial institutions uses those principle in their business.

According to government rule (UU RI) article 1, paragraph 13 Number.10/1998 it is said that an agreement on Islamic law between the bank and other parties to deposit funds or financing business activities, or other activities stated in accordance with sharia, among others, the financing is based on the principle of profit sharing (mudaraba), financing is based on the principle of equity (musharaka), the principle of buying and selling goods with profit (murabaha), or the financing of capital goods is based on the principle of pure rental without option (ijarah), or with the choice of transfer of ownership of the goods are leased from the bank by others (ijara wa iqtina). There are four principles of sharia in Islam are:

1. Shiddiq, ensure that the management of Islamic banks do with morality that upholds the values of honesty.
2. Tabligh, continuously socialize and educate the public about the principles of Islamic banking products and services.
3. Amanah, keeping the principles of prudence and honesty in managing the funds obtained from the owner of the funds (shahibul maal) so that achieve mutual trust between the owner of the fund and the investment fund managers (mudharib).
4. Fathanah, ensure that bank management is professional and competitive so it can produce maximum gains in risk level set by the bank.

#### 4.1. *Conventional Banking*

According to government rule (UU-RI) number. 10/ 1998 a Conventional Bank is a bank conducting conventional business in its activities providing services in financial traffic payment. In the conventional banks, fund owner (depositor) is interested to obtain compensation in the form of high deposit rates, while the interests of shareholders is such to obtain an optimal spread between deposit rates and lending rates. On the other hand the interest of users of funds (debtor) is to obtain a lower interest rate (low cost). Thus there are three interests of the three parties occurred antagonism and difficult to harmonized. In this case the conventional banks function as intermediaries only.

Conventional Bank, the interest rate is set at the time the contract with the guidelines must always be in favor of the bank. The percentage based on the amount of money (capital) lent. Total interest payments are not binding even though the amount of profits doubled while the economy in good condition.

#### 4.2. *Perception*

According to McDaniel, et al (2001: 224), perception is the process by which we select, organize, and interpret stimuli into the picture that gives meaning and attached. Perception (Kotler; 2008: 179), is the process by which we select, organize, and interpret, input information to create a meaningful picture of the world. What lies within the individual, thoughts, feelings, experiences affect individuals will participate actively in the process of perception (Kenya, 2013: 12). Understanding of these kinds of definition that have been put forward by the experts, it can be concluded that the perception is the process of someone catches everything through the senses then interpreted according to their thinking.

The formation of perception begins with the observation that through the process of relationship of see, hear, touch, feel, and accept something then someone selecting, organizing, and interpreting the information which is received into a meaningful picture. The occurrence of these observations are influenced by past experiences and attitudes of individuals. According to Miftah (2003: 145), the process of formation of perception there are several stages, namely:

- a. Stimulus  
Perception occurs when a person is exposed to a stimulus or stimuli in the environment.
- b. Registration  
One can listen to or view the information sent to him, and then lists all the information.
- c. Interpretation  
An important aspect of cognitive processes that give meaning to the stimuli received. The process of interpretation depends on how deepening, motivation, and personality.

## 5. Research Methods

This study uses a qualitative method of phenomenology which is based on the experience of individuals and groups on a special phenomenon that occurs at a time and at a specific location. Phenomenological approach seeks to understand the meaning of events and linkages to ordinary people in certain situations (Moleong, 2001: 9). The purpose of this phenomenological research is to describe and understand the experiences of individuals or groups, including interactions with other people of a particular phenomenon.

Informants in this study was determined by purposive method. The purposive sampling technique based on data sources with particular consideration. According to Faisal (2003: 67) in a purposive sampling techniques set deliberately by researchers. The criteria in this research is that all customers who have already used banking services (Bank BRI and Bank Muamalat). In addition to customers, there are other informants from employees of the bank who has a relevant information about the bank and the theologian (ulama) who is understand the principles of sharia expertly. The purpose of the addition of these informants is to obtain valid data by combining the response of each informant.

The data collection process begins with determining the informant to be encountered. After the informant is set, then researchers conducting interviews with informants. The first step is to conduct an open interview informally to multiply informant answers for all questions that have been posed, the researcher also noted the answers obtained from these interviews. Some of the topics question in this study include the following:

- a. Customer consideration before using the services at the bank
- b. Customer confidence about the bank used
- c. Services (products) they used
- d. Period of the use of services in the bank
- e. Opinions on the interest and profit sharing.
- f. Opinions about the Majelis Ulama Indonesia (MUI) fatwa that forbids bank interest
- g. Opinions about other moslem customers who still use the conventional bank services.
- h. The purpose of opening an account.
- i. Opinions of bank employees against Islamic banks and conventional banks.
- j. Savings products offered by banks Muamalat and Bank BRI

The interviews with all informants involved in this study amounted to 19 people, divided into several groups, bank customers of bank Muamalat and BRI bank, employees of BRI bank and bank Muamalat, and theologian.

## 6. Results and Discussion

Results of interviews with seven informants who use financial services in Bank Muamalat found that they use Bank Muamalat not because of avoiding usury (riba) factors but because of its service and administrative costs provided by Bank Muamalat lower than conventional banks. In addition, one of the informants is also provide information that the bank Muamalat do not charge administration fee when making transactions with different banks via ATM. Informants who use the Muamalat bank's services agree with the fatwa issued by MUI which forbids interest. Theologian who have encountered also supported the statement made by customers. They stated that Islamic banks and conventional banks are the same, it's only have a little different. According to theologian, if a transaction is a person feels aggrieved by the other parties concerned then it has to be said as usury. In contrast to the statements given by employees working in Bank Muamalat as Customer Service. Perceptions of employees working in the customer service Muamalat bank stated that Islamic banks are different from conventional banks because in Islamic banks, the contract that has been evident in accordance with Islamic law. The contract will not harm or burden between the bank and the corresponding customer. The revenue will be divided by two party in accordance with the portion of the agreement at the beginning. If the project gain more revenue, the revenue sharing will be higher. However, if the profits a little, then the revenue sharing are low. This system is also different with conventional bank interest, the revenue sharing can vary according to the bank's profits earned by fund management.

Results of interviews with eight informants who use financial services at Bank BRI is found that the informant who

become customers in the bank stating that the bank BRI already existed for long time ago and also has a wide range of locations, so make them easier to transact even in remote villages. Conventional banks have a wide reach so that the customer is prefer to using it. The interest in conventional banks is not a problem for them because of the interest BRI bank is able to pay their employees. The reason of informants using BRI bank services are vary, but mostly because of it has many branches or easy reach. Even in the village the conventional bank has it's branch office. The haram statement (fatwa) from MUI which is forbid bank interest is not an issue for the informants, since according to them, either interest or revenue sharing given by the bank is equally the same as a benefit. Perceptions of employees working in banks BRI stated that conventional banks is different from Islamic banks. Conventional banks focus on earnings or profits for the survival of the employees and the company. Conventional banks do not have contract as well as in Islamic banks. Customers who wish to open an account must comply with the conditions set by the bank, and the gains taken by the bank will be higher than the client. Theologian who have encountered also have an opinion that any Islamic bank can not be guaranteed for the cleanliness of usury. This is because the usury happen when one party feels aggrieved by the other parties, so this condition also happen if a customer feel disadvantaged by the bank. Those two conditons are stated as usury. But for those who are aware of being carefully they can choose to use Islamic banks as their financial institution.

Every informant has similar opinion about the fatwa issued by MUI that the interest is usury ,they agree with it. One of the informant from Muamalat customer said that the bank is still charge interest but only in different term. A Bank BRI customers who is agreed with statement that interest is usury, he will still choosing BRI because of their facility provided. The facilities provided is lead to customers satisfaction so that they are reluctant to switch to another bank. In their opinion, the islamic banking do not have the same necessarily facilities. Customer will compare between Bank Muamalat and Bank BRI based on the services and facilities provided by each bank. Customers are also considering the bank administrative fee of their account.

## 7. Conclusion

Based on the results and discussion above, the conclusion are:

- a. The customers reason to choose Bank Muamalat in Jember is to obtain a low administrative fee and a friendly service. Customer have a lack of understanding about revenue sharing provided by Bank Muamalat because they consider it as the same as interest.
- b. The customers reason to choose Bank BRI in Jember is because a wide range of their branch office and the ATMs are many so easily transact everywhere. Customers are not concerned about the existence of a given interest rate, even though they agree with the fatwa that the interest is riba (haram).
- c. The customer consider facilities and services between Bank Muamalat and Bank BRI before making their decision.

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