

Comments of

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on

Islamic Banking Consumer Behaviour in Indonesia: A Qualitative Approach

By

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1. The present paper is mainly an inquiry into the factors that determine the selection of a certain bank for the satisfaction of a particular set of banking services; with a special emphasis on the attributes that guide the choice of an Islamic bank over a conventional bank, for the same purpose. The paper is in my view of a great importance since it draws the attention of the researchers in Islamic banking to a field which, to my knowledge, is rarely explored: the marketing of Islamic financial services.¹

2. In addition to its central theme regarding the motivation that governs a consumer selection of a bank in general and an Islamic bank in particular, the paper deals with two further issues: 1) the consumers' perception of the Indonesian banking system, particularly their perception of Islamic banks; and 2) the segmentation of the Indonesian banking market. Both issues are related to the main theme of the paper. Indeed, customers' selection of a particular bank results from both the attributes that consumers consider as important for the selection process and the consumers' perception as whether these attributes are present or, to the contrary, lacking in a particular bank. On the other hand, customers are not necessarily guided by the same motives for the selection of a bank to meet some financial needs. It is more so, when the selection is between an Islamic bank and a conventional bank. Here, beliefs are important and they naturally vary from one

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¹ Some of the rare works that I came to know in this field are:

Woldie, A., & Evans, G.: "A comparative Study of Service Quality provided by Banks in Bahrain (2000)", *Middle East Business Review Journal*, Vol. 4, No.2.

Othman, A. & Owen, L., "Adopting and Measuring Customer Service Quality (SQ) in Islamic Banks: A Case Study in Kuwait Finance House"; *International Journal of Islamic Financial Services*, Vol. 3, No. 1.

Triyuwono, I. & others (2000): *Customer's Potency, Preference, and Behaviour Towards Shari'ah Bank in East Java*. Centre for Business & Islamic Economics Studies, Brawijaya University and Bank of Indonesia, Jakarta.

person to another. Thus, segmentation becomes a prerequisite for the study of the selection issue. It should therefore logically precede it. Surprisingly the authors relegated the segmentation next to last section.

3. The methodological choice for a qualitative approach is in my view correct, given the size of the sample and the lack of clearly formulated research hypothesis. Focus group discussion has its own merits in terms of simplicity, low cost and quickness. However, it should be considered, in my opinion, as a first stage of a research strategy which ends up with an in-depth quantitative investigation of well defined questions. Moreover, FGDs should be conducted with much care and their results interpreted with caution: it is well known that in group discussion people tend to focus their opinions on the most common ones, on 'social norms', while in reality, opinions and behaviour may be more diverse.

4. Some observations need to be made with regards the information set used in the study. The first part of the paper devoted to customers' perceptions of banking services and to the motives behind their selection of a certain bank, is based on a combination of focus group discussion (FGD) and in-depth interviews (IDI), for deriving. As for the segmentation part of the paper, it is based on interviews with Chief Executive Officers (CEOs) of 21 banks. Finally, Mystery Shopping method was used to assess customers' satisfaction with Islamic banks' services. As for FGD and IDI, I feel that there is a need for a clearer presentation of the sample used for this qualitative research. It is said that it is composed of ABC+ customers for FGD and of A+ customers for IDI. But the reader would certainly like to know how these categories of customers are defined and whether they are customers of Islamic banks or of conventional banks. With regards to the segmentation analysis, the purpose of the interviews was to reveal customers' attitudes vis-à-vis Islamic banks. With this purpose in mind, I believe that asking directly banks' customers about their opinion on Islamic banking would bring more objective and accurate responses. The Mystery shopping method appeals to well-trained persons who behave as normal customers but are precisely observing what is going well and what can be improved in the service process as perceived by the customer. For this method to be effective, shoppers should be independent, critical, objective and anonymous.

5. Motivations guiding the selection of a certain bank vary according to the moral values of the customer. This was mentioned above. They also depend on the nature of the services demanded from the bank. The paper recognises this fact and distinguishes between two categories of transactions: short term transactions like opening a checking account or paying utilities bills; and long term savings deposited with a bank. A couple of remarks may be raised on this particular point. First, why limiting long term transactions to savings? Aren't project loans also long term transactions? Second, is the selection of a certain bank for short term needs *independent* from bank's selection for long term needs? In fact, we find in the

literature some evidence to the contrary: consumers may have, to some extent, settled preference for acquiring services together.²

6. The paper refers to a theoretical framework of consumer decision making which distinguishes between low involvement and high involvement purchases. The former require Complex Decision Making or Limited Decision Making while the latter are subject to Brand Loyalty or Inertia. Banking transactions are supposed to be high involvement purchases. Such an assumption doesn't seem reasonable: not all banking transactions can reasonably be termed high involvement purchase. For instance, transactions such as the payment of utilities' bills or the opening of a checking account are more likely considered as low involvement purchases.

7. The exploratory research undertaken for this study reveals a rather negative perception of the services provided by Islamic banks. When they are aware of the particularities of Islamic Banks,³ customers look at them as having limited facilities and lacking large customer base. I think that it would be useful to cheque the correctness of such perception through the comparison of statistical data on facilities and customer base of both Islamic and conventional banks. On the other hand, the authors infer from this negative perception of Islamic banks that consumers will go to Islamic banks only if they have a strong belief that interest is *ribā*. If this inference is true, then Islamic banks' clientele would be limited to customers strongly committed to Shari'ah (called in the paper Shari'ah loyalists). Again, it would be interesting to verify such inference by having a look at the composition of Islamic banks' clientele. Checking customers' perceptions against the facts doesn't need to be limited to Islamic banks. It would be also useful to compare the map of Indonesian banks as it is perceived by the customers with the actual situation.

8. Consumers' decision making is viewed as a process leading to a product choice decision; here a bank choice decision. Motivations guiding the choice are considered as the first step in this process. The analysis of the authors with regards to this aspect calls for the following observations:

- The authors mentioned that they found “two different motives []that govern reason of placing consumer fund in a certain bank, namely short term transaction need and long term saving need”. I think that this statement is confusing: short term and long term transaction needs cannot be taken as *motives*. They are rather categories of transactions which are prompted by different motives.
- The FGDs conducted by the author revealed that long term saving needs are due to security and return reasons. Noting that return among the

² Amel, D. F. and Starr-McCluer, M. (2001): *Market Definition in Banking: Recent Evidence*. Federal Reserve Board of Governors.

³ In fact, the same research shows that customers' awareness of this subject is rather limited: Some of them think that Islamic banks are banks for Muslims only.

different banks in Indonesia is not significantly different, they withdrew the return variable. Logically, they should be left with only one motive: safety. But they curiously introduced an additional motive: service level or service quality. One doesn't understand the origin of this motive, since it doesn't emerge from the FGDs.

- Basically, the authors recognised two motives for the selection of a certain bank: convenience and service quality for short term transactions; and safety and service quality for long term savings. However, occasionally they talk of three motives.⁴ The third motive attributed to Shari'ah abiding customers is "avoiding *ribā* and looking for Allah's reward". This hesitation on the number of motives is confusing. I believe that it is necessary to distinguish two levels of the decision making process: First, consumers should decide whether to get the required banking services only from Islamic banks or to extend their choice to the whole banking system. Once this question is settled, consumers would have to answer a second question: which bank consumers will *specifically* choose to obtain the desired services. It is clear that what is termed the third motive commends the first level decision, i.e. the selection of the kind of banks that a consumer would like to deal with. The two other motives should govern the selection of a particular bank to undertake the desired transactions.

9. Information search is the second step in the decision making process. It is argued in the paper that Shari'ah loyalists will limit their search for relevant information to Islamic banks. At first sight, this seems quite reasonable. However, some of the services offered by banks do not involve any payment of interest. This is the case of the payment of utilities' bills, currency exchange operations, sight deposits, etc. For this category of banking services, even customers who strongly believe that interest is *ribā*, may consider getting them from conventional banks. Their information search would therefore extend to all banks, Islamic and conventional.

10. Different alternatives to get specific banking services are evaluated on the basis of the two motives identified above. This constitutes the subject matter of the third step of the decision making process. The analysis undertaken at this stage calls for the following comments:

- The terminology used is somewhat confusing. For example, "*product functionality*" is used with two different meanings in the short and in the long terms: the nature of the facilities and the safety of savings, respectively. In the short term, the same variable was called "convenience" in an earlier part of the paper.
- The modalities considered for the "convenience" variable vary from adequate to optimal facilities. Isn't it a priori possible that some customers

⁴ See the last paragraph of Section II; p. 12.

may perceive that the facilities provided by a certain bank are less than adequate?

- Perceptions of the participants to the group discussion or to the interviews with regards each one of the three decision variables (convenience, safety and service quality) are obtained after translating the FGD & IDI results into a Likert scale from 1 to 5. More details on the procedure used in the translation would make the picture clearer to the reader. For example, one would like to be informed on the questions asked to the interviewees in order to assess the quality of the facilities provided by a certain bank.
- Since each bank is evaluated on the basis of two criteria, it is important to know how these criteria are combined together so as to reach the final choice. If we consider, as an example, the short-term transactions, the authors suggest that consumers who prefer convenience value will prefer the bank which is perceived as providing the most convenience. Those who prefer the service quality value will similarly prefer the bank which is perceived as providing the best quality service. However, it is likely that consumers do not have *absolute* preference for one value or the other. In this case the overall choice should reflect some kind of weighted average of the two values. Weights may of course differ from one customer to another.
- When evaluation is among Islamic as well as conventional banks, the authors think that consumers will consider the trade off between beliefs on one hand and convenience and service quality on the other. This is not necessarily true. Consumers of this category (called the *floating mass*) may have already settled the moral issue, in the sense that they do not mind dealing with conventional banks. So the selection criteria for them will be convenience and service quality.

11. The results of the evaluation step are portrayed into two subjective perceptual maps: one for short term transactions and one for long term savings. While commenting the first map, the authors made some observations which seem either unrelated to the map or inconsistent with the identified criteria for the selection of a particular bank. These cases are summarized below:

- “HSBC and Citibank are perceived as too exclusive”.
- “HSBC, BCA, Lippo, Permata, BNI, Mandiri are perceived as closely competing among each other”. The reported analysis is of no help to substantiate this statement or the precedent.
- BNI and Mandiri are not in the upper left quadrant (BNI is even in the least favourable quadrant). Nevertheless the authors state that these banks “become favourites due to their wide outlet availability”. This conclusion should in my view embarrass the authors. Indeed, it implies that the

decision variables that emerged from their research are unable to reflect properly the effective preferences of banks' consumers.

12. Similarly, the interpretation of the perceptual map for long term savings raises some questions:

- The ranking of banks is supposed to be based on two factors: service quality and safety of return. However, the authors noted that the actual preferences of the consumers took into account another factor, called without any precision "emotional aspect". If such a factor is important for the selection of a bank for long term savings, then why the analysis undertaken by the authors failed to recognize it?
- The comparison of Islamic and conventional banks on the basis of safety of return should take into account the particularities of Islamic banking, where no fixed return on savings deposits is allowed. Depositors share in the profits realized by the bank.
- The map shows that the only bank which is perceived as fulfilling both criteria is Mandiri. However, the authors stated curiously that Niaga⁵ is automatically included because it fulfils both expectations in long term saving (safety & good service).
- BNI and Permata are found to be favourite banks, despite their below average ranking in terms of service quality. This is due to safety, as these banks are big government-owned banks. This conclusion raises the issue of trade-off between the two factors: service quality and safety. The paper doesn't show how these two factors are combined together. What weights are given to each?
- BRI is above average in terms of safety and it is the best in terms of service quality. Nevertheless, for the authors "BRI is not too close as favourite bank". This once again suggests that the two factors identified as guiding the choice of a particular bank do not adequately reflect the selection criteria used by banks' customers.
- The two perceptual maps identify what is called a Shari'ah area. A priori, it should be made of the same banks in both cases. However, I found that the area on the short term map includes BRI but not Lippo. But, on the long term map, BRI is no longer in the Shari'ah area, while Lippo seems to be there.
- It is not quite clear how Islamic banks' customers consider that these banks are good for long term saving while at the same time they expect lower

⁵ Niaga doesn't appear as such on the map, and I don't know if it corresponds to one of the banks presented in an abbreviated form. In fact the use of abbreviations creates a problem of readability for the reader who is unfamiliar with the Indonesian banking system.

return. What is the criterion that leads to this positive perception in terms of savings?

- BNI, Permata and Mandiri are portrayed as competitive banks for long term savings transactions. This statement remains also unsubstantiated.

13. I mentioned earlier the importance of studying the segmentation of the banking market for an effective analysis of the motivations behind the choice of a certain bank. I will add below some further comments on this section of the paper:

- The basic segmentation variable considered by the authors is about the moral or religious values of customers. It is a highly relevant variable. Based on consumers' beliefs, three segments of the market are identified: 1) the "*Sharī'ah loyalist*" segment composed of those who see interest rate as *ribā*; 2) the "*conventional loyalist*" segment made of those who do not believe that interest rate is *ribā*; and 3) the "*floating mass*" segment composed of those who are "in between". This classification is in my opinion ambiguous. First of all, either one believes that interest is *ribā* or he doesn't believe so. I don't see any thing in between. This makes the third segment an empty set. Second, "conventional loyalists" are said to be price insensitive, which means that this category of customers would not demand Islamic banks' services even if the price of these services is lower. Thus "conventional loyalists" are guided by dogmatic attitudes. This goes beyond the definition given of this category as customers who do not believe that interest is *ribā*. Indeed, one may believe that interest is not *ribā* and still demands Islamic banking services if they are offered on competitive terms.
- The refinement of the segmentation based on customers' beliefs regarding interest is quite confusing. It appears that the authors aim at subdividing the intermediate category, called floating mass into two sub-segments: the more Sharī'ah oriented and the less Sharī'ah oriented floating mass. But the criterion proposed for this break down is based on whether customers consider placing funds with Islamic banks brings reward from Allah or not. My understanding is that consumers would consider this question only if, in the first place, they believe that interest is *ribā*; i.e. they are "Sharī'ah loyalists".
- In addition to the refinement of the "beliefs" variable, the authors introduced three other segmentation variables: 1) The most important value guiding the decision of the consumer (product functionality or service quality); 2) the type of customer (individual or a firm) and 3) the economic size of the customer (4 modalities). This rather rich and complex segmentation exercise leads however to very poor results: Neither the type of customer nor its economic size nor the refinement of the floating mass category brings any useful information for the comprehension of the decision making process. Even the two other variables (attitude towards

interest and guiding value) have very poor information content: All what we draw from this exercise is that: 1) the less consumers are Shari'ah-oriented the more they tend to compare among the whole banking system (conventional as well as Islamic banks); and 2) consumers who give more importance to convenience will choose the bank with more convenience while those who give more weight to service quality will choose the bank which provides better quality service. Both conclusions are quite obvious and do not require much analysis.

- The authors announced that interviewed CEOs were asked on their estimation for market potential of each segment of the market. They failed however to report any information on this aspect.

14. The last section of the paper attempts to assess customers' satisfaction with Islamic banking, using the mystery shopping method. An overall satisfaction index is calculated on the basis of a quantitative evaluation of two factors composed each of different elements. It remains to know what weights are given for the different elements of each factor and what is the relative weight of each factor compared to the other. On the other hand, results are simply reported in a diagram. They require to be commented and the reader would like to see what conclusions can be drawn there from.

15. One major conclusion which emerges from the paper is that Islamic banks suffer from a negative perception in terms of facilities. They are advised to improve their facilities in order to change this perception of inferior product functionality compared to conventional banks. The advice is quite agreeable. But I would like to point out that improving the facilities of a bank has two opposite effects on the profitability of the bank. On one hand, it results in more sales and a higher turnover, but on the other hand it requires more resources. So, a bank as a profit-seeking organisation will improve its facilities only to the point where its profit is maximized.