

CHAPTER I

INTRODUCTION

A. Background

Nowadays, the number of Muslims is equivalent to 25% of the human worldwide population. According to *Mastercard* and *Crescent Rating* reports, in 2022, the Muslim population will reach 2 billion people and spread across 200 countries. In Asian regions, as many as 65% of the human population are Muslim. With the most extensive distribution in South Asia with a percentage of 35.6%, Southeast Asia at 13.8%, West Asia with 12.7%, Central Asia with 3.4%, and East Asia with 1.5%. Based on The Royal Islamic Strategic Studies Centre (RISSC) report entitled *The Muslim 500*, 2022 edition, there are 237,560 million Muslims in Indonesia. This figure makes Indonesia become a country with the largest Muslim population in the world. This number is equivalent to 86.7% of the total population in Indonesia.

Table 1.1 below shows the total population of Muslims in 8 countries in 2022. Those countries are Turkey, Iran, Egypt, Nigeria, Bangladesh, India, Pakistan, and Indonesia.

Table 1.1
8 Countries with the most Muslim populations in 2022

NO	COUNTRY	TOTAL POPULATION
1.	Indonesia	237,558,000
2.	Pakistan	213,265,000
3.	India	206,112,893
4.	Bangladesh	150,150,000
5.	Nigeria	99,910,000
6.	Egypt	91,800,000
7.	Iran	83,488,991

8.	Turkey	71,097,883
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Source: The Royal Islamic Strategic Studies Center (RISSC)

Based on the above data obtained from The Royal Islamic Studies Center (RISSC), in year 2022, the country with the highest total Muslim population was Indonesia, with 237,558,000 people, while Turkey was in eighth position with a total Muslim population of 71,097,883 people.

The rapid growth of the Muslim population worldwide is the cause of the development of the global halal industry. The halal industry has become one of the attractive sectors for marketers in the last few decades. Its growth considered to be one of the fastest-growing markets worldwide (Khalek & Ismail, 2015). In the past, halal was only a religious issue, but then consumers considered it a symbol of global quality assurance and a healthy lifestyle. This influences the government so that it can increase its attention to products in society. The government, represented by the Ministry of Religion Affairs and assisted by the Indonesian Ulema Council (MUI), is trying to select products, both food and drink which are circulating in society to always follow the Islamic sharia law. This can be realized by providing halal certification (halal label) on all foods and drinks.

To clarify, halal means permissible rules. Halal products are products that are prepared to follow Islamic law, also known as sharia law or Islamic law, in accordance with acceptable processes or procedures (Famiza et al., 2017). Halal theory is also based on the Qur'an and Sunnah. Halal products are widely used for food, cosmetics, personal care products, pharmaceuticals, foodstuffs, and in contact with foodstuffs. As a Muslim, consuming Halal products is an obligation, as stated in the Al-Quran:

وَكُلُوا مِمَّا رَزَقَكُمُ اللَّهُ حَلَالًا طَيِّبًا ۗ وَاتَّقُوا اللَّهَ الَّذِي أَنْتُمْ بِهِ مُؤْمِنُونَ

Which means: "And eat the lawful and good food (thayib) from that which has been granted to you and fear Allah and believe in Him" (Al Maidah 5:88).

Currently, many halal industries or halal products are circulating in society, such as the halal food and beverage industry, cosmetics, medicines, sharia financial services, Muslim fashion, halal tourism, and Islamic media. According to the Indonesia Sharia Economic Festival (ISEF), the growth of the halal market or industry is caused by several factors, namely:

1. Increase in the number of Muslim populations. By 2030, it is predicted that the Muslim population will increase to 2.2 billion people. This increase is said to be double the increase in the world's non-Muslim population.
2. Increase in the gross domestic product of Organization of Islamic Cooperation (OIC) countries, because of the increasing prosperity of the Muslim population throughout the world.
3. Increased religious awareness in the Muslim population, this increase has resulted in increased demand for halal products.
4. The significant penetration of smartphones and technology in OIC countries leads to a more digitally connected Muslim population. The use of technology and smartphones is one way to help halal industry practices.
5. Increasing trend of ethical consumerism, which has principles in line with a halal lifestyle. In fact, a halal lifestyle is very relevant for everyone. This makes many non-Muslim consumers ultimately choose to practice a halal

lifestyle and use products from the halal industry that are guaranteed to be safe, clean, and good.

The development of halal industry must be connected to technological developments. The exchange of information, communication tools, and digital-based payment tools prove this development. Technological advances make it easier for humans to carry out daily activities, especially for people with high mobility, so it is not surprising that as time goes by, humans must be technologically literate so as not to be defeated by the times.

Payment tools or systems for transactions have many changes over time. During the time of Rasulullah SAW, the currencies used for transactions in trading activities were dinars (gold) and dirhams (silver). The dinar, along with the dirham, was introduced as the official Islamic currency at the end of the 7th century by Al Malik, the fifth caliph (685-705) of the Umayyad Dynasty. Before using paper, dinars and dirhams were used as the official exchange currency. The value of this currency is based on precious metals, namely the actual value or at least close to the precious metal from which it is made. Dinars and dirhams were used as currency until the time of the caliphs Umayya and the Abbasid.

Until 1839, the Ottoman government issued currency in the form of paper with the name *gaima*, but its value continued to decline because people did not believe in it. During World War I in 1914, Turkey and other countries introduced paper money as legal tender and canceled gold and silver coins. Since then, paper money has been recognized as an actual payment method worldwide (Susanti,

2017). Since then, paper money has been recognized as a legal means of payment and as a form of wealth, and it is also called fiat money.

As time goes by and system developments and technology change, the role of the cash payment system is increasingly being shifted to a non-cash electronic payment system (cashless payments) because of its efficiency and convenience. In this digital era, people also want to have speed in transferring money to other parties via digital wallets (E-Wallets), credit cards, electronic payments, and other mobile payments. It is coupled with the development of smartphones, which provide facilities for making payment transactions without using a card (cardless). This behavior is what drives cashless payment in society (cashless society).

Electronic money or e-money is the same as ordinary money because it functions as a means of payment for buying and selling goods. From a sharia perspective, electronic money is halal or permissible. This halal is based on the following rules:

1. Every transaction in muamalah is basically allowed unless evidence prohibits it, then the law changes to haram. Therefore, electronic money must meet the criteria and provisions of sharia principles.
2. There is a demand for electronic money and consideration of its many benefits.

Indonesian Ulema Council (MUI) Fatwa No: 116/DSN-MUI/IX/2017 concerning Sharia Electronic Money, electronic money is a means of payment that meets the following elements:

1. Issued based on the nominal amount of money deposited in advance with the issuer.
2. The nominal amount of money is stored electronically in a registered media.
3. The nominal amount of electronic money managed by the issuer is not a deposit as intended in the law governing banking.
4. Used as a means of payment to traders who are not issuers of electronic money.

According to Syarifuddin et al., (2009), the existence of a non-cash payment system for the Indonesian economy offers convenience, effectiveness, and financial productivity, which can encourage real sectors, economic growth, and improve people's welfare and can trigger an increase in velocity of money. The non-cash payment system influences economic growth because of the acceleration of the velocity of money and the reduction in the amount of money circulating in society. Where the acceleration of money circulation, can increase the volume of transactions and increase people's income as well as reduce the Money Circulation or *Jumlah Uang Beredar (JUB)*, which can also reduce government operational costs. The increase in the use of debit cards, ATMs, credit cards and e-money can encourage consumers to consume and demand goods and services, which encourages an increase in real sector activities (Dias, 2001).

Table 1.2 below shows the volume and value of cashless payment from the year 2018 to 2022:

Table 1.2
Volume & Value of Cashless Payment

Component	Unit	Year				
		2018	2019	2020	2021	2022
Transaction Volume	Thousands of transactions	3,492,015	7,053,583	15,043,475	8,264,160	12,330,360
Transaction Value	Billions of Rp	106,780	473.443	504,956	786,454	1,177,797

Source: Bank Indonesia, 2022

Based on *Statistik Sistem Pembayaran dan Infrastruktur Pasar Keuangan (SPIPK)* by Bank Indonesia, the volume of non-cash payments is increasing from year to year, in 2022 the value of non-cash payment transactions will reach IDR 1,177,797 billion with a transaction volume of 12,330,360 thousand transactions. The very rapid development of the amount of electronic money (e-money) in circulation can be used as an indicator of public acceptance of non-cash transactions.

Not only in Indonesia, but many countries have implemented non-cash payment systems. According to Fintech Magazine, Sweden is 1st ranked with the most cashless societies in the world. The country has only 32 operating ATMs per 100,000 people and more than 98% of the population has a debit/credit card. Sweden is also ranked first as the country that uses mobile payments the most. The country with the 2nd most cashless society is China. China's finance minister announced that as much as \$13.68 billion worth of financial transactions were carried out non-cash using cards and mobile payments in China. Ranked 3rd in the

country with a cashless society, the largest in the world is Norway. According to the World Bank, 98% of Norwegian citizens have adopted a debit/credit card system. In addition, data shows that in 2021, only 2-3% of transactions at points of sale in Norway will use cash. Ranked 4th, the Netherlands with 91% of its population using digital payments and debit cards. Finland is ranked 5th in the country with the most cashless society globally. Finland also currently ranks second after Ireland in frequency of card use, fifth in e-commerce spending as a percentage of GDP, and third in online banking adoption.

This also influences an individual in determining purchasing decisions for halal products. According to Aditia & Suhaji (2017), the purchasing decision is the consumer's understanding of the wants and needs of a product. The purchasing decision is also a decision assessment stage that causes buyers to choose among several brands included in the option set and form an intention to purchase. Consumer purchasing decision towards halal products is an essential part of market assessment, which is very important as an indicator of success in the halal industry (Soesilowati et al., 2013). An essential function of halal supply chain management is to ensure that the transformation process from raw materials to finished products is in the hands of consumers in halal conditions. Does not experience gray areas or haram conditions (Tieman et al., 2012).

Decisions to purchase halal products are primarily related to individual or consumer behavior and perceptions. Amalia et al., (2020), explains that buying decisions are closely related to behavior, subjective norms, and perceived behavioral control. Several researchers agree on other consumer perception factors,

such as Gargh et al., & Haque et al., (2018). Consumers' concern for halal products also influences purchasing decisions, as claimed by Awan et al., (2015), Nurhayati & Hendar (2020), also by Gojali & Asih (2020). On the other hand, product purchasing decisions are also related to the product's condition. Several references project purchasing decisions with mixed marketing strategies, including development, place, price, and promotion (Widyastuti et al., 2020).

Unfortunately, there's lack of previous studies that have examined the influence of economic factors and halal certification on decisions to purchase halal products, especially using non-cash payments or online payments. Therefore, this research is intended to analyze **"THE EFFECT OF ECONOMIC FACTOR AND SOCIAL FACTOR ON HALAL PRODUCT PURCHASE DECISION WITH CASHLESS PAYMENT"**.

B. Research Question

Considering the prior background information described the problem formulations in this study are as follows:

1. Does personal income affect halal product purchase decisions on non-cash (cashless) payment?
2. Does family income affect halal product purchase decisions on non-cash (cashless) payment?
3. Does income expectation affect halal product purchase decisions on non-cash (cashless) payment?

4. Does consumer credit/loan affect halal product purchase decisions on non-cash (cashless) payment?
5. Does liquid assets affect halal product purchase decisions on non-cash (cashless) payment?
6. Does saving affect halal product purchase decisions on non-cash (cashless) payment?
7. Does social network affect halal product purchase decisions on non-cash (cashless) payment?
8. Does online social network affect halal product purchase decisions on non-cash (cashless) payment?
9. Does family affect halal product purchase decisions on non-cash (cashless) payment?
10. Does word of mouth affect halal product purchase decisions on non-cash (cashless) payment?

C. Research Objectives

Based on this problem, it can be concluded that the objectives of this research are:

1. To determine whether personal income can influence someone's purchasing decision in halal products using non-cash (cashless) payments.
2. To determine whether family income can influence someone's purchase decision to buy halal products using non-cash (cashless) payment.

3. To determine whether income expectation can influence someone's purchase decision in buying halal products using non-cash (cashless) payment.
4. To determine whether consumer credit/loans can influence someone's purchasing decision in buying halal products using non-cash (cashless) payments.
5. To determine whether Liquid assets can influence someone's purchase decision in buying halal products using non-cash (cashless) payment.
6. To determine whether saving can influence someone's purchase decision in buying halal products using non-cash (cashless) payment.
7. To determine whether social networks can influence someone's purchase decision in buying halal products using non-cash (cashless) payments.
8. To determine whether online social networks influence someone's purchasing decision in buying halal products using non-cash payments.
9. To determine whether a family can influence someone's purchase decision in buying halal products using non-cash (cashless) payment.
10. To determine whether word of mouth can influence someone's purchasing decision in halal products using non-cash (cashless) payments.

D. Research Benefit

The results of this study are expected to provide the following benefits:

1. For Academician

This research is likely to be used as reference material for further research regarding economic factors and social factors in purchasing halal products with non-cash (cashless) payments.

2. For Government

This research can be helpful for the government in determining what economic and social factors influence the decision to purchase halal products using non-cash (cashless) payments.

3. For Society

This research can be helpful for society in that many economic and social factors can influence the decision to purchase halal products using non-cash (cashless) payments.