

CHAPTER I

INTRODUCTION

1.1. Background Research

These Recent years the development of Islamic banking in Indonesia is showing rapid growth. At the founding of 1 November 1991 was established the first Islamic bank in Indonesia, namely Bank Muamalat Indonesia (BMI). At first, the operation of Bank Muamalat Indonesia has not been strengthened by the Banking Law which includes the principles of Islamic banking practices. The existing banking law at the time was Law No.7/1992, which only describes "a bank with a profit-sharing system". But since the enactment of the Banking Law No.10/1998, the existence of Islamic banking has been firmly set. It also set up the opportunity for conventional banks to open Islamic branches or convert themselves to Islamic banks (Bank Muamalat. 2006).

Fundamentally, both conventional and Islamic banking act as intermediary which distributes funds from the surplus units to the deficit units. However, both conventional and Islamic banking are different in its fundamental system. Interest is the main income of conventional banks' operation even it takes in form of reward for services, such as safety of wealth, guarantees, funds transfers, etc.

As the conventional banks are dealing with interest, Muslims then have a thought to establish financial institutions under Islamic principles. Unlike conventional bank; Islamic banking prohibits interest in its operation.

Islamic banking runs their company based on profit and loss sharing as the teaching of Islamic economics, in which every profit should follows by its risk. Thus, customers should not take risk one's itself. Hence, Islamic bank has applying profit and loss sharing is being able to minimize the default which is the main factor of monetary crisis. Because of the sustainability of Islamic bank, Islamic economic system has been applying at all banking over the world in the late 20th century as the choicest system, including in Indonesia.

In line with the development of Islamic banking system, the development of Shariah bank performance increases quite rapidly as well indication a positive response from the public to choose the Shariah banking products. As of May 2004, the growth of banks has reached 353 offices shariah bank, and assets 11.6 billion rupiah. The amount of financing provided to reach 7.56 billion and deposits of 7.77 trillion rupiah (Dr. Halim Alamsyah, Deputi governor of Bank Indonesia).

Table 1.1**Development of Sharia Bank**

Indicator	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
BUS	2	3	3	3	3	5	6	11	11	11
UUS	8	15	19	20	26	27	25	23	24	24
BPRS	84	88	92	105	114	131	138	150	155	155
Branch office	337	443	550	693	802	1,069	1,258	1,763	2,101	2,380
Asset (milliard Rp)	8,152	15,803	21,502	27,618	37,754	51,249	68,212	100,258	148,987	149,321
DPK (milliard Rp)	5,910	12,129	15,933	21,193	28,730	37,828	53,522	77,640	117,510	116,871
PYD (milliard Rp)	5,723	11,821	15,688	21,060	28,837	39,455	48,473	70,190	105,331	106,532

Source: shariah banking statistic, December 2012

Actually, if we viewed in terms of the role of Islamic banks are still relatively small when compared with the role of conventional banks considering that first bank in society. The situation where the economy dominated by the conventional banking system, interest rates are one of the bench mark for consumer itself. In recent economic crisis showed by the low real sector growth, profit sharing earned by Islamic banking is also small, far smaller than interest rate. Consequently, those choosing bank with economic profit motives will consider saving money in Islamic banking as uninteresting (Karim, 2001).

Basically rejection of conventional banks in Muslim societies is due to understanding of the prohibition of usury besides banking activities that might lead to non-Islamic system activities. Furthermore, the reason that the

Indonesia country, which has a majority of the population is Muslim, is certainly not one of the reasons that affect behavior or perceptions of consumers / citizens prefer products or services of Islamic banks. In addition, the non-economic aspects are also expected to affect the world banking community.

Islamic banking business rise and reached the peak of his prime and it could develop up to date, Islamic banks could not be separated from the many challenges and problems faced by the development of shariah banking in Indonesia especially. Some problems were encountered in connection with the development of Shariah banking, among others:

- a. People without proper understanding of the Shariah banking operations.
- b. Applicable banking regulations have not been fully operational to accommodate shariah banking.
- c. Shariah banking office network that has not been widespread.
- d. Lack of human resources expertise in Shariah banking (development and Prospect syariah banking in Indonesia: challance toward MEA 2015)

In its efforts to further develop Islamic banking network, it is necessary to increase the business community's understanding of Islamic banking itself regarding products, mechanisms, banking system and the ins and outs of the shariah as the development of the network will depend on the extent of the public demand for the banking system.

In addition, the fundamental question arises based on the above-mentioned phenomena. Societal perspectives and reasons why people choose to use Islamic banks to keep their money. This question is certainly great enough to affect Islamic banks themselves because of the public response could help towards the development of Islamic banking itself.

Furthermore, according to the author of shariah bank development in the future could not be separated from the information gathered through scientific studies because of recommendations from the results of scientific research will contribute to the great banking institutions to draw up market strategies in order to gain market share and create customer satisfaction, and provide correct and reliable information to the general public so that people have a great desire to utilize the Shariah Bank services .

Besides discussing about the overall development of Islamic banks in Indonesia, it is different if we are talking about the development of Islamic banks in the region particularly in the Daerah Istimewa Yogyakarta. The growth of Islamic banking in the city of Yogyakarta during the last three years is quite significant. Recently, it reaches 40 percent / year. Based on Bank Indonesia's data, the total assets of Islamic banking in the city of Yogyakarta in December 2007 was Rp528 billion, but in the end of 2008, the total assets become Rp 856 billion. Moreover, in November 2009, the total assets of Islamic banking in the city of Yogyakarta was Rp 1,23 billion (Bank Indonesia, 2012)

Islamic banking in the city of Yogyakarta in 2010 has developed with very impressive with growth, exceeding the growth rate of conventional banks with total assets of Rp 1,532 billion and increase 19.04% from 2009 and also, the development of Islamic banking in the city of Yogyakarta in Indonesia with the highest market share of 5.78% in 2010 of total banking assets. This share actually exceeded the national share of Islamic banking (Economic team researcher Bank Indonesia Yogyakarta, 2010).

It is undeniable that the city of Yogyakarta is the majority religion of Islam. It is becoming one of the supporters of the cause and helps the development of Islamic banks in the city of Yogyakarta when we look at in terms of the dominant religion of the factors affecting the reason people choose to save in Islamic banks.

But, according to the author it is not enough to be one of valid reason. Is that any other factors could support and become a very strong factor for the reason and the answer to the question what are the factors that influence people choose to save in Islamic banks, especially in the Yogyakarta area.

Actually, there were some studies which have conduct research about people perspective towards Islamic banking. The studies about why does a consumer choose the Islamic banking rather than conventional banking are also have been conducted. Most of the studies were using religion as the factor that causes people to choose Islamic banking rather than the conventional one.

Even the result of those studies was various, but it should be noted that there were so many studies which found that religion motivation has no significant effect on choice-making behavior of consumer for choosing Islamic banking. Furthermore, rate of return that provided by bank and service provision toward Islamic banking may influence choice-making behavior of consumer for choosing Islamic banking.

Talking about habits or behaviors in determining the choice of a goods or services, everyone will have different opinions and have their own reasons why they chose to use the goods or services of such products. It depends on the factors that influence them including internal and external factors.

According to Kotler (1994), consumer behavior is influenced by cultural, social and personality of the consumer itself (psychological factor). For example, if a person chooses to save in Islamic banks, motivation is influenced by religious factors may be dominant more powerful than the other factors.

Information about the characteristics and behavior of consumers is critical to the development of Islamic banking. In order to understand the characteristics and behavior of consumers, the study aims to provide empirical evidence on their preference for Islamic banking and the factors motivating them to save money in Islamic banks. Based on the above, researchers will conduct a scientific study entitled analyzes the factors that influence the decision to choose to save in Islamic banks.

1.2. Limitation of Research Problem

To avoid misperceptions and disagreements, the authors will provide restrictions on the problem in this study, including: This study only examined the factors that affect in the city of Yogyakarta especially those residing in the city of Yogyakarta consists of various types of job, age, and still listed as customer of any Islamic bank. Authors deploy only 80 respondents due the limitations of time. Questions contained in the questionnaire was covers the variables studied. Variables studied were:

- a. Satisfaction towards Islamic banking services
- b. Internal and external / reference
- c. Religion
- d. Understanding of Islamic banks

1.3. Problem Formulation Research

From this background, the issues to be discussed in this thesis were:

- a. What are the factors that influence customers to choose to save in Islamic banking?
- b. How much people know and understand the Islamic bank itself? And whether their knowledge of Islamic banks in the decisions affecting their use of the products or services of Islamic banks?

1.4. Research Objective

This study aims:

- a. To identify and analyze factors that influence customers to choose to save in Islamic banking
- b. To identify and analyze the extent to which people recognize the Islamic banks

1.5. Benefits of Research

The results of this study were expected to provide benefits to many stakeholders, including:

- a. For researchers, this study is expected to increase the knowledge and insight to more understand about the factors that influence the development of Islamic banks.
- b. For customers, this research is expected to be able to explain Islamic banks themselves in depth and gives understanding to the public about Islamic banking knowledge and also for the consideration and input to all customers of Islamic banks particularly who resides in the city of Yogyakarta.
- c. For banks, this research can provide benefits, especially in the field of consumer services, because it can't be denied that the customer service to be one very important factor in the success of a company. This research can provide a depiction of the public why they chose to save in Islamic banks. And indirectly this study is expected to increase

the maximum service over again from the bank to the customer itself
organized also for the Islamic banks.