Analysis of the Effect of Service Quality, Knowledge Level, and Islamic Financial Literacy Level on Muslim Community Decisions to Use Islamic Bank Services

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Abstract

This study was conducted to find out how the influence of the level of knowledge, quality of Islamic banking services, and the level of Islamic financial literacy possessed by the Muslim community on decision making using Islamic banking service products. The research was conducted with a quantitative and causal associative approach. The study was conducted on 100 respondents who are Islamic bank customers in Metro City, Lampung, Indonesia. The data obtained through filling out the questionnaires were then analyzed by statistical analysis using multiple linear regression. The results of data analysis in this study indicate a significant influence between the level of knowledge, service quality, and the level of Islamic financial literacy on the decision of the Muslim community to use Islamic banking services.

Keywords: *Islamic Banking; knowledge of the Muslim Community; Quality of Bank Services; Islamic Financial Literacy*

Introduction

Islamic banking has experienced rapid development since the beginning of the entry of the Islamic economic system into Indonesia [1]. The existence of Islamic banking began to be recognized as marked by the emergence of Law Number 7 of 1992 concerning banking, which was subsequently changed to Law Number 8 of 1998 which emphasized that the Islamic banking system was placed as part of the national banking system. In addition, it is also stated in Law Number 10 of 1998 which regulates the legal basis and types of businesses operated by Islamic Banks. The law states that there are rules that suggest conventional banks in Indonesia to create Sharia-based branches or convert themselves into Islamic banks. Therefore, Islamic banks are now able to compete with conventional banks by improving their performance [2].

From its inception until now, Islamic banking has continued to develop quite well when viewed from total assets in 2015, 2016, and 2017. For Islamic Commercial Banks from 2015 to 2018 it has increased, although in January 2018 there was a slight decline, but there are still there is a possibility of an increase at the end of 2018. These increases are inseparable from the increasing public interest in taking Islamic bank products where the majority of Indonesian people are Muslims. However, according to Agustianto [9], as chairman of the DPP of the Indonesian Islamic Economist Association (IAEI),

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explained that the sharing market generated by Islamic banks in Indonesia is still very small. Market Share is still below 4% of total bank assets nationally. When viewed from the results of research conducted by Bank Indonesia in 2007 taken from the Sharia Banking Investment Guide book [3] explains that approximately one third of the districts or municipalities in Indonesia shows about 42% of areas categorized as quite potential to potential for Islamic banking. As stated by Agustianto [9] that the number of potential Muslims to become customers of Islamic banks is more than 100 million people.

One area that has the potential to develop Islamic banking is Metro City, Lampung Province. More than 90% of the population in this city are Muslims and the rest are non-Muslims. The development of Islamic banking shows positive things with great enthusiasm from the community, especially the Muslim community. In addition, the development of assets and the number of offices also experienced a fairly rapid increase. So that Islamic banks are becoming more popular. However, despite this, several weaknesses were identified in the implementation of Islamic banking. Some of them are 1) the public's understanding and knowledge level of Islamic banks is still low; 2) the products owned are still less varied; 3) does not yet have technological facilities like conventional banks; 4) lack of access to certain sectors, such as infrastructure; 5) lack of supervision in the management of funds; and 6) the quality of human resources and capital. This is reinforced by the results of research conducted by Echchabi and Aziz [4] and Ismanto [5] which show that the reason for the lack of public interest in Islamic banks is the factor of facilities and products that are less attractive. They still choose conventional banks because there are services that are not yet available in Islamic banks. This will affect the quality of the services provided.

In general, the public or customers have their own considerations in determining a banking product. Usually, prospective customers will be more interested in products that can provide many advantages and benefits for them [6]. People who have a good level of knowledge of Islamic banks and their products will find it easier to make choices. This level of knowledge will help people to be wiser and make better choices. The more knowledge about Islamic banks that consumers have, the higher the possibility of dealing with Islamic banks [7]. So that the most basic factor in the development of Islamic banks is customer knowledge. Sources of knowledge can be obtained through various media, both print media and electronic media [6, 8]. So that Islamic banks can use the media in conveying the best possible information.

In addition to service quality and knowledge, another important factor that can influence people's decisions in choosing banking services is financial literacy. Financial literacy is a person's way of thinking about his financial condition so that he is able to understand how to make choices in its management. People who have an understanding of finance in all its aspects will find it easy to improve their welfare and help increase the economic growth of a region. According to a number of studies that have been carried out, it shows that the level of Islamic financial literacy owned by the Indonesian people is still relatively low [9]. Some people with middle to lower economies are not directly related to financial services. In Indonesia itself, according to data produced by the world bank, it is explained that only 52% of the people are in contact with formal financial services, 31% of the people access informal finance. Another regret is that as many as 50% of the Indonesian people are estimated to not understand financial services and products, both informal and formal.

Methodology

This research was conducted by quantitative analysis with a causal associative approach. Associative research is research conducted to find out or see a causal relationship that occurs between variables (two or more variables) [10]. In this study, causal associative aims to see how the causal relationship occurs between the independent variables (level of knowledge, Islamic financial literacy, and quality of Islamic banking services) to the dependent variable (the decision of the Muslim community in using Islamic banking services).

The research was carried out in Metro City, Lampung Province, Indonesia. The population of this study is the Muslim community in Metro City who use Islamic banking products. Researchers took a sample of 100 people from the population based on the Stanley Lemeshow formula [11]. The data collection technique used in this study was a questionnaire technique. Questionnaire is a research technique used to collect data by giving a set of questions or statements to respondents to answer [10]. Measurement of variables using a Likert scale with four alternative answers. Measurement of the validity and reliability of the instrument was tested on 30 Muslim communities who use Islamic banking products. The data analysis technique used descriptive analysis of variables, classical assumption test including normality test, multicollinearity test, and heteroscedasticity test. The submission of the hypothesis using multiple linear regression equation [12].

Result

The first step in this research is the classical assumption test as a prerequisite for hypothesis testing, such as normality, multicollinearity, and heteroscedasticity tests. The normality test on the data of the four variables shows a significance value above 0.05 (Sig. > 0.05), so the data can be said to be completely normally distributed. Based on this, the parametric test was carried out.

In addition, the multicollinearity test shows the VIF value for each variable of knowledge level, service quality, and Islamic financial literacy level, namely 1.127, 1.093, and 1.033 so that it can be said that there is no multicollinearity in the relationship variables. Heteroscedasticity test was conducted to determine the homogeneity of the error variance for each independent variable value. Heteroscedasticity test was carried out using the Park test. The results of the heteroscedasticity test showed that the regression analysis met the heteroscedasticity requirements indicated by a significance value of 0.466 (Sig. > 0.05). Furthermore, from the results of data analysis with multiple regression obtained results as shown in Table 1.

Table 1. Results of Multiple Regression Analysis

Model	Regression Coefficient	T Calc.	Sig.	R	R^2	F
Constant	4.594					
Knowledge level	0.205	2.206	0.030			
Service quality	0.353	4.058	0.000			
Sharia financial literacy	0.145	2.203	0.030			
Regression (ANOVA)			0.000	0.527	0.278	12.294

Knowledge level influence analysis

The indicators included in the Knowledge Level variable are general knowledge, procedural knowledge, and product purchase knowledge. The survey results show that people with a moderate level of knowledge are 61%. That is, as many as 61 respondents already have knowledge of Islamic banking and its products. The results of this study indicate that there is a positive influence of the variable level of knowledge on Muslim community decision making using Islamic banking products. This can be seen from the data in Table 1 where the T test value shows a value of 2.206 and a significance value of 0.030. This value indicates a positive influence where the regression coefficient value is positive. So it can be said that the higher the level of public knowledge of Islamic banking and its products, the higher the public's decision-making in using Islamic banking products. The results of this study have strengthened the results of research conducted by Ahmad [7] that knowledge of Islamic banking products will affect the customer's decision to use or not to use Islamic banking products. This is because knowledge is everything or all information related to a thing so that someone will be able to identify its nature or characteristics. Of course this also applies to the Islamic banking system and its products. When people already know the system and the characteristics of its products, it will be easier to decide whether to use

the product or not with all the considerations that have been thought of beforehand. On the other hand, if public knowledge is still low about Islamic banking and its products, it will lead to a less positive view of Islamic banking so that doubts arise and a sense of lack of interest arises. Thus, marketing methods need to be a concern for managers so that all information can be conveyed properly to potential customers [8].

Analysis of the influence of service quality

This variable includes several indicators, namely reliability, responsiveness, assurance, empathy, and tangibles. Judging from the description of the research data, it can be seen that the people who assess the quality of Islamic banking services are in the moderate category as much as 50%. Meanwhile, 41% stated that the quality of Islamic banking services was in the low category. Of course this needs to be a big concern for Islamic bank managers because many customers feel that the quality of service is still not good. Although many consider that the quality of service is still low, they still use the services of Islamic banks because they feel they have already done it and are forced to because the company they work for requires. Improving service quality must be a solution so that customers continue to use Islamic bank products.

The data in Table 1 shows that there is a positive relationship between service quality variables on Muslim community decision making in using Islamic bank products. This can be seen from the resulting T test value of 4,058 with a significance value of 0.000 and a regression coefficient of 0.353. This data shows that the improvement in service quality will be directly related to the increase in the decision of the Muslim community in choosing Islamic bank products. Of course this can be used as an illustration and solution for bank managers. In other words, improving service quality is an absolute thing that needs to be done in the development of Islamic banking innovations. This is because service quality is closely related to customer satisfaction [13, 14, 15]. So that the implementation of excellent service needs to be continuously improved by Islamic bank managers [16, 17, 18]. Some of the things that are highlighted in service quality are employee performance, cash deposit facilities, ATMs, and m-banking. Employee performance can be improved with servant leadership so that services can be improved [18, 19, 20, 21]. In addition, it is also necessary to present information about products to customers or potential customers.

Analysis of the influence of Islamic financial literacy level

Several indicators measured in the Islamic financial literacy variable are knowledge, abilities, attitudes, and beliefs. From the survey data, 41% of respondents have a medium level of Islamic financial literacy. This means that there are still many people who do not have good Islamic financial literacy. If look at the data in Table 1, there is a positive relationship between the level of Islamic financial literacy and the decision to use Islamic bank products. This can be seen from the T test value of 2.203 with a significance value of 0.030 and a regression coefficient of 0.146. That is, if the community has a good level of Islamic financial literacy, the higher the level of community decision making in choosing to use Islamic bank products. This result is supported by the statement expressed by Agustianto [9] that Islamic financial literacy can generate many benefits. The community or customers and Islamic financial service institutions have relationships that need each other. So that the higher the level of community Islamic financial literacy, the more people will take advantage of the products and services of the Islamic financial institution [22]. The possibility of profit to be obtained by Islamic financial services institutions will also automatically become bigger and the opportunities wider. In addition to this, the higher the level of community Islamic financial literacy can encourage the growth of the Islamic financial institution industry to continue to update and create new products that are more innovative, creative, and populist. Likewise, with the public in order to avoid fake investments. In addition, to measure the progress of a country's economy is the high level of financial literacy of its citizens. The role of the Government and related figures is very much needed in providing socialization to every region in Indonesia.

Conclusion

The results of data analysis in this study have provided information and an illustration that there is a significant positive influence between the level of knowledge, service quality, and the level of Islamic financial literacy on the decision making of Muslim communities using Islamic banking products. That is, if the community has a sufficient level of knowledge of the Islamic banking system and its products, feels good service quality, and has good Islamic financial literacy, the higher the decision in choosing Islamic banking services by the Muslim community. So that these three variables can be used as a benchmark for Islamic bank managers in developing the implementation of Sharia-based financial services.

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