

Customer Adoption of Islamic Banking Services: Empirical Evidence from Indonesia

Heri SUDARSONO¹, Yunice Karina TUMEWANG², Muamar Nur KHOLID³

Received: November 30, 2020 Revised: February 07, 2021 Accepted: February 16, 2021

Abstract

This paper aims to examine the main factors that influence the adoption of Islamic banking services in Indonesia. This research collects primary data by distributing questionnaires to 550 respondents in 29 provinces in Indonesia. A total of 550 questionnaires were returned comprising 34.2 percent male respondents and 65.8 percent female respondents. Most of the respondents were in the age group of 21–30 years with the highest level of education being high school. Most of the respondents were working in private firms, with a monthly expenditure of IDR 2,500,000. The independent variables in this study are bank reputation, perceived complexity, perceived compatibility, perceived risk, relative advantage, religiosity, and social influence. Meanwhile, the dependent variable is customer interest in adopting Islamic banking services. The result of this study indicates that awareness and perceived compatibility have a positive effect on customer intention to adopt Islamic banking services. Likewise, religiosity and social influence also have a significant and positive effect on customer intention to adopt Islamic banking services. Meanwhile, bank reputation and perceived complexity have no effect on customer intention to adopt Islamic banking services. Lastly, perceived risk has a negative and significant effect on customer intention of adopting Islamic banking services in Indonesia.

Keywords: Islamic Bank, Islamic Banking Services, Awareness, Bank Reputation, Perceived Complexity

JEL Classification Code: G20, G21, M10, M30

1. Introduction

Islamic bank in Indonesia was established in 1991 through the establishment of Bank Muamalat Indonesia (BMI). The bank was founded in 1991, based on the initiative of the Indonesian Council of Ulama (MUI) and under the auspices of the Government of Indonesia. However, the operation of Islamic banks in Indonesia had formally begun in 1992. The early development of Islamic banking in the national

banking system was responded to quickly by the government with the enactment of Law Number 7 of 1992 about banking, which was later amended by Law Number 10 of 1998 - which stipulates that banks can operate based on Islamic principles. By then, the Islamic banking industry had an adequate legal basis as followed by the issuance of Act Number 21 of 2008 concerning Islamic Banking. According to data 2019 data from Financial Services Authority (Otoritas Jasa Keuangan - OJK), there are around 189 Islamic banks consisting of 14 Sharia Commercial Banks (Bank Umum Syariah - BUS), 20 Sharia Business Units (Unit Usaha Syariah - UUS), and 164 Sharia Rural Banks (Bank Pembiayaan Rakyat Syariah - BPRS) in Indonesia (Otoritas Jasa Keuangan, 2019).

The increasing number of Islamic financial institutions particularly Islamic banks has not been supported by the ability of Islamic banks to promote their services. Lack of knowledge and awareness among the people about the services offered by Islamic banks hinders the prospect of expanding Islamic banking. This situation is proven by the low level of Islamic financial literacy in Indonesia, which merely reached 38.03 percent (The Jakarta Post, 2020). This literacy rate reflects the low level of adoption of Islamic banking services. For this reason, Islamic banks

¹First Author and Corresponding Author. Associate Professor, Department of Economics, Faculty of Business and Economics, Universitas Islam Indonesia, Indonesia [Postal Address: Ace Partadiredja Building, Ngringin, Condongcatur, Sleman, Yogyakarta 55283, Indonesia] Email: heri.sudarsono@uii.ac.id

²Assistant Professor, Department of Accounting, Faculty of Business and Economics, Universitas Islam Indonesia, Indonesia. Email: yunice.karina@uii.ac.id

³Assistant Professor, Department of Accounting, Faculty of Business and Economics, Universitas Islam Indonesia, Indonesia. Email: muamar.nk@uii.ac.id

offer a variety of service innovations that meet the needs of customers, both in terms of funding and financing (The Jakarta Post, 2020).

Comprehending the determinants of Islamic banking services adoption is crucial so that appropriate measures can be undertaken by Islamic financial institutions to keep pace with stiff competition within the industry. Institutional factors such as safe facilities (Amin et al., 2013) could influence the community in adopting Islamic banking services. In addition to that, other factors are also found to be influential such as bank reputation, a sense of comfort, quality of staff, ATM availability, quality and speed of service, cost, the influence of family and friends, variety of services, and so forth (Echchabi & Olaniyi, 2012; Obeid & Kaabachi, 2016).

This study aims to evaluate the effect of bank reputation, perceived complexity, perceived compatibility, perceived risk, relative advantage, religiosity, and social influence on customer intention to adopt Islamic banking services in Indonesia. This research broadens the theory of innovation diffusion (Rogers, 2003) which is further used by (Amin et al., 2013; Ayinde & Echchabi, 2012; Aziz et al., 2015; Echchabi et al., 2014; Echchabi & Aziz, 2012a). This study attempts to fill previous research gaps within the Indonesian context. The benefit of this study is to help Islamic bank managers to identify the Islamic banking services needed by customers. The identification of these services is needed for the management of Islamic banks to prioritize and allocate resources to improve the services. Finally, by identifying and prioritizing services, managers can improve their marketing strategy as a solution to bring the satisfaction of Islamic bank customers in Indonesia.

2. Literature Review

In various countries, customer behavior towards Islamic banking services has been widely discussed by a number of researchers. Various aspects related to the relationship between the customer and Islamic banking services have been discussed by various studies (Abou-Youssef et al., 2015; Bananuka et al., 2019; Bashir, 2012; Echchabi & Aziz, 2012a; Kaabachi & Obeid, 2016; Okumus & Genc, 2013; Souiden & Jabeur, 2015; Souiden & Marzouki, 2015). The results showed the relationship of several factors such as awareness, bank reputation, perceived complexity, perceived compatibility, perceived risk, relative advantage, religiosity, and social influence on customer intention to adopt Islamic banking services.

The contribution of this research is to modify the model that has been used by the existing literature. The independent variable in this research model consists of awareness, bank reputation, perceived complexity, perceived compatibility, perceived risk, relative advantage, religiosity, and social influence. Meanwhile, the dependent variable is the intention to adopt Islamic banking services. Figure 1 illustrates how each independent variable relates to the dependent variable:

Awareness: In various contexts, the relationship between customer awareness and intention to adopt Islamic banking services has been investigated by existing literature (Daud et al., 2011; Khattak & Rehman, 2010; Metawa & Almosawi, 1998). The strong relationship between customer awareness and intention to adopt Islamic banking services has been proven in several studies (Echchabi & Aziz, 2012a; Faisal et al., 2014; Wahyuni, 2012). By considering the results

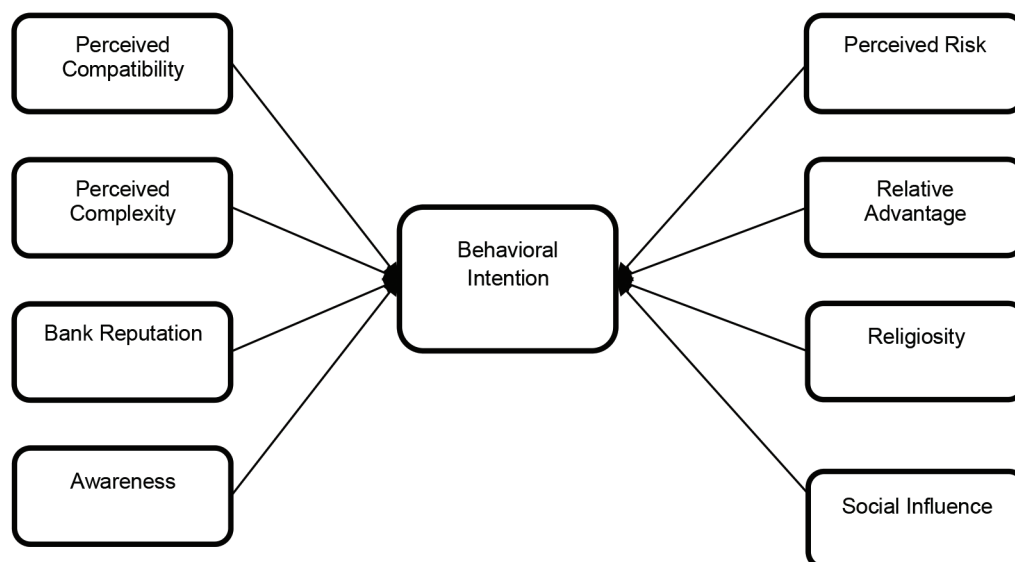


Figure 1: Research Model

of previous studies related to the relationship between awareness and customer intention to adopt Islamic banking services, the following hypotheses can be formulated:

H1: *Awareness positively affects customer intention to adopt Islamic banking services.*

Bank Reputation: The relationship between bank reputation and the customer intention to adopt Islamic banking services has been examined by many researchers (Lateh et al., 2009; Peng et al., 2019). The results of the study by Dusuki and Abdullah (2007) and Echchabi and Aziz (2012a) showed that the combination of service quality and financial reputation has an effect on the customer intention to adopt Islamic banking services for customers in Malaysia. Ismail et al. (2014) showed that there is a strong relationship between the reputation of Islamic banks and the intention of Malaysian customers intention to adopt Islamic banking services. Likewise in Tunisia, Chebab and Zribi (2012) revealed that customers are very concerned about the reputation of banks in determining the type of banking services which will be used. In line with that, the study by Kaabachi and Obeid (2016) found a strong relationship between bank reputation and customer intention in using Islamic banking services. By considering the result of previous studies related to the bank reputation and customer intention to adopt Islamic banking services, the following hypotheses can be formulated:

H2: *Bank reputation positively affects customer intention to adopt Islamic banking services.*

Perceived Complexity: Complexity can be defined as how difficult the innovation is to understand and/or use (Gerrard & Cunningham, 2003; Gerrard et al., 2006; Ram & Sheth, 1989). The level of difficulty of innovation in Islamic banking services is negatively related to the customer intention to adopt the service (Jamsihidi & Hussin, 2013; Thambiah et al., 2011). In line with this, Hamid and Nordin (2001) proved that one of the important factors for customers to adopt Islamic banking services is the ease of service. Likewise, Amin et al. (2013) showed that customer intention to use financing products in Islamic banks is influenced by the extent to which this product is easily understood by customers. By considering the result of previous studies related to the complexity and customer intention to adopt Islamic banking services, the following hypothesis can be formulated:

H3: *Complexity negatively affects customer intention to adopt Islamic banking services.*

Perceived Compatibility: Compatibility can be defined as how consistent the innovation is with the values, experiences, and needs of the potential adopters (Rogers, 2003). Several

previous studies show that compatibility is positively related to customer intention of adopting the service from Islamic bank (Amin et al., 2013; Ayinde & Echchabi, 2012; Aziz et al., 2015; Echchabi & Aziz, 2012a; Thambiah et al., 2011) prove that the decision to adopt Islamic banking services is influenced by the compatibility of service with religious and social values as well as customer lifestyle and financial condition. The result of this study is in line with those conducted by Aziz et al. (2015) and Echchabi and Aziz (2012a) who demonstrated that the amount of information held by consumers about Islamic banks, the relative advantage of Islamic banking, and its compatibility with consumer values, lifestyle, and banking habits are predictors of its adoption in Morocco. By considering the result of previous studies related to service compatibility and customer intention to adopt Islamic banking services, the following hypothesis can be formulated:

H4: *Compatibility positively affects customer intention to adopt Islamic banking services.*

Perceived Risk: Perceived risk represents an uncertain, probabilistic potential future outlay". In simple terms, perceived risk is the ambiguity that consumers have before purchasing any product or service (Bauer, 1960; Rattanaburi & Vongurai, 2021). Gerrard and Cunningham (2003), Kholid (2019), and Nguyen and Nguyen (2020) showed a negative relationship between risk and intention to adopt Islamic banking services. Risk involves uncertainty about the effects/implications of activity with respect to something that humans value, often focusing on negative, undesirable consequences. Echchabi and Aziz (2012a), Thambiah et al. (2011), and Yusof (1999) showed that customers attempt to avoid risk by minimizing the use of Islamic banking services. Furthermore, Thambiah et al. (2011) and Yusof (1999) found that the reason why customers are less interested in adopting Islamic banking services is that Islamic banks are considered riskier in the absence of guaranteed profits from Islamic banks. By considering the result of previous studies related to risk and intention to adopt Islamic banking services, the following hypothesis can be formulated:

H5: *Perceived risk negatively affects customer intention to adopt Islamic banking services.*

Relative Advantage: Relative advantage is defined as the degree to which an innovation is seen as better than the idea, program, or product it replaces (Rogers, 2003). Aziz et al. (2015), Echchabi and Aziz (2012a), and Thambiah et al. (2011) showed that the advantage of Islamic banking in form of the functional, ethical and social benefits that customers acquire comes from service quality, pricing policies, corporate social responsibility, and social prestige. These advantages are important factors for customers to adopt Islamic banking services. Amin et al. (2013) found a positive

effect of the relative advantage of Islamic banking services on customer intention to adopt Islamic banking services in Malaysia. In line with that, Kaabachi and Obeid (2016) found that the relative advantage is positively related to customer intention to adopt Islamic banking services. Considering the result of previous studies regarding the relative advantage and customer intention to adopt Islamic banking services, the following hypothesis can be formulated:

H6: *Relative advantage positively affects customer intention to adopt Islamic banking services.*

Religiosity: Religiosity is defined as the doctrine of one's beliefs about God or other supernatural powers. According to Huber and Huber (2012), religiosity is a person's beliefs about the existence and attributes of God. Someone is considered to have a religious experience when she/he has been able to determine the emotional attitude for something that supports and/or against the religious beliefs. Bananuka et al. (2019), Kaawaase and Nalukwago (2017), and Muslichah and Sanusi (2019) found a positive relationship between religiosity and customer intention to adopt Islamic banking services in Uganda and Indonesia. The same result was found by Obeid and Kaabachi (2016) who proved a strong relationship between religiosity and intention of adopting the service from Islamic banks in Tunisia. Thus, the following hypothesis can be formulated:

H7: *Religiosity positively affects customer intention to adopt Islamic banking services.*

Social Influence: Influence from the environment becomes an important part in influencing one's intention in adopting Islamic banking services (Lajuni et al., 2017). The social influence will help individuals to adapt to their environment, as an individual effort to survive in an environment that is not completely known (Venkatesh & Davis, 2000). Studies conducted by Echchabi and Aziz (2012a) showed that subjective norms are important factors in examining individual intention. Specifically for Islamic financial institutions, several researchers also revealed a significant influence between social influence and customer intention to adopt Islamic banking services (Mohanachandran & Normala, 2019; Sudarsono et al., 2020). Thus, the following hypothesis can be formulated:

H8: *Social influence positively affects customer intention to adopt Islamic banking services.*

3. Research Method

3.1. Design and Sampling

This study uses a purposive sampling technique with the criteria (i) Respondents of this study are people who have an account in an Islamic bank or conventional bank or both banks; (ii) Respondents aged 17 years and over

who are allowed to open an account in an Islamic bank, or conventional bank or both. Questionnaires are distributed online to respondents who meet the predetermined criteria. A total of 550 questionnaires were returned consisting of 34.2 percent males and 65.8 percent females. Most of the respondents are in the age group of 21–30 years with the highest level of education being high school. Most of the respondents worked in private firms with a monthly expenditure of IDR 2,500,000. Meanwhile, the number of accounts in the conventional banks is nearly 59.2 percent. Table 1 presents the characteristics of the sample in this study.

Table 1: Characteristics of Sample

Variable		Frequency	Percent
Gender	Males	188	34.2
	Females	362	65.8
	Total	550	100.0
Age	<20 years old	200	36.4
	21–30 years old	339	61.6
	>31 years old	14	0.2
	Total	550	100.0
Education	High School	316	57.4
	Diploma	28	0.5
	Bachelor	198	36
	Master	6	0.1
	Doctoral	2	0.0
	Total	550	100.0
Working	Government officer	14	2.5
	Private officer	135	24.5
	Entrepreneur	11	0.2
	Student	390	70.9
	Total	550	100.0
Spending	<IDR 2,500,000	500	90.9
	IDR 5.001.000 – IDR 7.500.000	24	4.4
	IDR 7.501.000 – IDR 10.000.000	15	2.7
	>IDR 10.000.000	11	0.2
	Total	550	100.0
Bank	Conventional bank	326	59.2
	Islamic bank	94	17.0
	Conventional and Islamic bank	130	23.6
	Total	550	100.0

3.2. Measurement

This research uses quantitative research methods with a data collection model through structured questionnaires distributed to the respondents. Measurement of variables is adopted by combining previous studies related to customer intention in adopting bank services such as (Bashir, 2012; Gounaris & Koritos, 2008; Jarvenpaa et al., 2000; Kaabachi & Obeid, 2016; Laroche et al., 2004). This study uses a five-point Likert scale, from strongly disagree (1) to strongly disagree (5). Measurement details of each variable can be observed in Table 2.

3.3. Data Analysis

Data analysis was performed using a partial least square-structural equation model (PLS-SEM) technique using SmartPLS software (Ringle et al., 2015). The advantage of this technique is the ability to use abnormal data and to explain the differences between target constructs. PLS-SEM is a two-step process in which the first measurement model is analyzed to check the reliability and validity of the data and the second one is an assessment of the structural model carried out for path analysis and hypothesis test.

4. Results and Discussion

4.1. Measurement Model

With regard to the measurement model, testing of the outer loading indicator shows that the value of each outer loading indicator is above 0.7. IN 1 and 2 have outer loading values of 0.890 and 0.922 respectively. With regard to convergent validity, it can be seen that the Average Variance Extracted (AVE) value for each construct is above 0.5 which fulfills the convergent validity testing criteria. This study took the value of Composite Reliability (CR) and Cronbach's Alpha (CA) to test reliability. Reliability testing criteria can be fulfilled if CR and CA values are above 0.7. The result shows that CR and CA for each construct are above 0.7. Thus, it fulfills the reliability testing criteria. Table 3 provides in detail the results of the reliability and validity test. The discriminant validity test was performed in line with the criteria set by Fornell and Larcker (1981). According to this criterion, the square root of the AVE of each construct is aligned with its correlation with other constructs. The result of the discriminant validity test presented in Table 4 shows that the discriminant validity test can be fulfilled.

4.2. Structural Model

Hypothesis test results in Table 5 show that awareness ($\beta = 0.141$; $t = 3.338$) and perceived compatibility ($\beta = 0.327$;

$t = 6.132$) have a positive effect on customer intention to adopt Islamic banking services. Thus, H1 and H3 are supported. Meanwhile, Perceived risk ($\beta = -0.113$; $t = 2.288$) has a significant negative effect on customer intention to adopt Islamic banking services. It can be concluded that H5 is acceptable. Similarly, religiosity ($\beta = 0.094$; $t = 2.462$) and social influence ($\beta = 0.345$; $t = 6.584$) have a significant and positive effect on customer intention to adopt Islamic banking services. Thus, H7 and H8 are supported. Meanwhile, bank reputation ($\beta = -0.024$; $t = 0.571$) and perceived complexity ($\beta = 0.052$ $t = 1.042$) have no effect on customer intention to adopt Islamic banking services and this result does not support H4 and H6.

4.3. Discussion

The result shows that awareness has an effect on customer intention to adopt Islamic banking services. This result is consistent with the study conducted by Ayinde and Echchabi (2012), Bizri (2014), Echchabi and Aziz (2012a), Firdaus et al. (2007), Rammal and Zurbruegg (2007), and Thambiah et al. (2011) knowledge, and understanding of Islamic banking and finance (IBF. Further, Faisal et al. (2014) and Wahyuni (2012) also demonstrated a positive relationship between awareness and customer intention to adopt Islamic banking services. Customer awareness of the role of Islamic banking services in Indonesia makes the customers prefer to adopt Islamic banking services. This awareness arises from a large amount of information about Islamic banking services which individuals obtain from their social environments such as schools, families, and interested communities.

Bank reputation has no effect on customer intention to adopt Islamic banking services. This result also shows that the brand image of Islamic banks does not play an important role in developing customer confidence in Islamic banks (Amin et al., 2013; Hoq & Amin, 2012). The reputation of Islamic banks has not been a major factor for customers to choose banks (Chebab & Zribi, 2012). These results contradict the existing literature such as Ahmad and Haron (2002), Dusuki and Abdullah (2007), Gait and Worthington (2008), Lateh et al. (2009), and Othman and Owen (2001) who revealed that customer perception about bank reputation is one of the most important factors in choosing an Islamic bank or conventional one. The existence of conventional banks which has long been known is still the main consideration for some Muslim communities in Indonesia. The existence of a relatively new and less-known Islamic bank in Indonesia is not fully trusted by many Muslim customers.

Compatibility has a significant and positive effect on customer intention to adopt Islamic banking services. This finding supports the previous studies conducted by Ayinde and Echchabi (2012), Aziz et al. (2015), Doraisamy et al. (2011), Echchabi and Aziz (2012a), and Thambiah et al. (2011)

Table 2: Summary of Measurement Scales

Variable	Measure	Sources
Intention of adoption	I have an intention of adopting the service from Islamic bank in the future	(Kaabachi & Obeid, 2016)
	I think I will often adopt the service from Islamic bank in the future	
	I would highly recommend others to adopt the service from an Islamic bank	
Awareness	I know Islamic banking in Indonesia	(Bashir, 2012; Kaabachi & Obeid, 2016)
	I know the instruments used in financing products offered by Islamic banks	
	I know the distinction between Islamic bank and its conventional counterpart	
	I know the features and benefits of Islamic banking products	
	To be well-known, Islamic banks should do more promotions	
Bank Reputation	Islamic bank has a good reputation	(Jarvenpaa et al., 2000; Kaabachi & Obeid, 2016)
	Islamic bank has a reputation of honesty	
	An Islamic bank is known to have good care for customers	
	Islamic bank has a reputation of being transparent with customers	
Complexity	To use Islamic banking, customers need a lot of knowledge	(Gerrard & Cunningham, 2003; Kaabachi & Obeid, 2016; Mansumittrchai & Chiu, 2012))
	Customers experience difficulties in conducting transactions in Islamic banking	
	Making transactions in Islamic banking is complicated and frustrating	
	Islamic banking services involve complicated procedures	
Compatibility	An Islamic bank is in line with my values	(Gounaris & Koritos, 2008; Kaabachi & Obeid, 2016)
	Islamic bank suits my needs	
	An Islamic bank is very suitable for my lifestyle	
	Using Islamic banking services is very compatible with the way I manage my money	
Perceived Risk	Using Islamic banking services can bring potential financial losses	(Kaabachi & Obeid, 2016; Laroche et al., 2004)
	Using Islamic banking services could not provide the benefits that I expect	
	Adopting the service from an Islamic bank can damage my self-image	
	Adopting the service from an Islamic bank can adversely impact other people's opinions about me	
Relative Advantage	Islamic bank operation is in line with Sharia principles	(Bashir, 2012; Faisal et al., 2014; Kaabachi & Obeid, 2016)
	Profit-based financing - sharing of losses between the lender and the borrower will benefit both parties	
	Return on investment in Islamic banks is more profitable than interest in conventional banks	
	Islamic banks offer a lower cost than conventional banks	
Religiosity	I try to follow the commands of Islam in everything in my life	(Bananuka et al., 2019; Obeid & Kaabachi, 2016).
	I always try to avoid small and big sins as the teachings of my religion	
	I believe that all ideological dimensions are based on Islam	
	I know the basis and knowledge needed in my religion	
	I feel sadness and dissatisfaction when I do something contrary to my faith	
Social influence	People I consider important can influence me to use Islamic banking	(Obeid & Kaabachi, 2016)
	Most people that I consider important support me to use Islamic banking	
	Most of my friends/colleagues who have become customers of Islamic banking agree that Islamic banking is better than the conventional one	

Table 3: Validity and Reliability of Construct

Construct	Items	Loading	CA	CR	AVE
Intention (IN)	IN1	0.890	0.899	0.935	0.829
	IN2	0.922			
	IN3	0.888			
Awareness (AW)	AW1	0.739	0.836	0.891	0.672
	AW2	0.842			
	AW3	0.846			
	AW4	0.847			
Bank Reputation (BR)	BR1	0.821	0.856	0.903	0.7
	BR2	0.876			
	BR3	0.864			
	BR4	0.782			
Perceived Complexity (PCL)	PCL2	0.842	0.883	0.927	0.81
	PCL3	0.943			
	PCL4	0.941			
Perceived Compatibility (PCT)	PCT1	0.867	0.923	0.945	0.812
	PCT2	0.922			
	PCT3	0.918			
	PCT4	0.897			
Perceived Risk (PR)	PR1	0.893	0.919	0.942	0.803
	PR2	0.899			
	PR3	0.898			
	PR4	0.895			
Relative Advantage (RA)	RA1	0.716	0.762	0.848	0.584
	RA2	0.812			
	RA3	0.743			
	RA4	0.781			
Religiosity (RE)	RE1	0.849	0.884	0.915	0.683
	RE2	0.860			
	RE3	0.829			
	RE4	0.823			
	RE5	0.770			
Social Influence (SI)	SOC1	0.840	0.807	0.886	0.722
	SOC2	0.891			
	SOC3	0.817			

who showed that customers who believe that Islamic banking matches their religious and ethical values, lifestyles, banking habits, and financial needs will be more willing to adopt it. This shows that the services of Islamic banks have been able to accommodate the problems of customers. Therefore, bank services could adjust to the society in Indonesia in terms of their habits, lifestyles, and beliefs.

Perceived complexity has no effect on customer intention to adopt Islamic banking services. This finding is in line with the research conducted by Echchabi and Aziz (2012b, 2012a) who found that complexity has no effect on customer intention to adopt Islamic banking services in Morocco. This situation shows that service innovation developed by Islamic banks is not attractive to customers, thus the complexity of services is not a problem for customers. This situation is caused by innovation, especially in the field of technology developed by Islamic banks in Indonesia, which tends to follow the innovations developed by conventional banks. Meanwhile, the majority of society in Indonesia still conducts transactions with conventional banks, thus the innovation developed by Islamic banks has no effect on customers.

The result shows that risk has a negative effect on customer intention to adopt Islamic banking services. This result is consistent with the findings of Debab and Yateem (2012), Echchabi and Aziz, (2012a), Thambiah et al. (2011), and Yusof (1999). This study showed that the riskier the Islamic banking services, the lower the interest of customers to adopt Islamic banking services. The risk of Islamic banks is related to the ability of bank management to provide collateral losses in deciding whether to adopt Islamic banking services or not. If customers feel they cannot get a loss guarantee, their intention to adopt Islamic banking services will decline.

Relative advantage does not affect customer intention to adopt Islamic banking services in Indonesia. This finding supports the study conducted by Echchabi et al. (2014) who showed that relative advantage has no significant effect on customer intention to adopt Islamic insurance. This finding is contrary to the research of Amin et al. (2013), Aziz et al. (2015), Echchabi and Aziz (2012a), and Thambiah et al. (2012) who confirmed a positive relationship between relative advantage and customer intention to adopt Islamic banking services. This research shows that customers do not know much about the benefits of services in Islamic banks. This situation shows that Islamic banks need to enhance socialization and publication about Islamic banking services to customers.

Religiosity has an effect on customer intention to adopt Islamic banking services in Indonesia. This finding is in line with previous researches conducted by Souiden and Jabeur (2015) and Souiden and Marzouki (2015) who demonstrated a significant impact of religiosity on customer intention to adopt Islamic banking services. A similar result was found

Table 4: Measurement Model Assessment: Discriminant Validity

	AW	BR	IN	PCT	PCL	PR	PA	RE	SI
AW	0.820								
BR	0.472	0.837							
IN	0.456	0.455	0.900						
PCT	0.482	0.595	0.636	0.901					
PCL	−0.138	−0.092	−0.111	−0.122	0.910				
PR	−0.149	−0.078	−0.136	−0.094	0.734	0.896			
PA	0.481	0.613	0.456	0.602	−0.039	−0.043	0.764		
RE	0.363	0.438	0.432	0.380	−0.100	−0.232	0.390	0.827	
SI	0.361	0.499	0.623	0.626	−0.037	0.032	0.480	0.441	0.850

Table 5: Assessment of the Structural Model

	Original Sample (O)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values	Result
AW → IN	0.141	0.042	3.338	0.001	Supported
BR → IN	−0.024	0.042	0.571	0.568	Rejected
PCT → IN	0.327	0.053	6.132	0.000	Supported
PCL → IN	0.052	0.050	1.042	0.298	Rejected
PR → IN	−0.113	0.049	2.288	0.023	Supported
RA → IN	0.001	0.047	0.030	0.976	Rejected
RE → IN	0.094	0.038	2.462	0.014	Supported
SI → IN	0.343	0.052	6.584	0.000	Supported

by Obeid and Kaabachi (2016) who confirmed a positive relationship between religiosity and customer intention to adopt Islamic banking services. Bananuka et al. (2019) and Kaawaase and Nalukwago (2017) revealed a positive relationship between religiosity and customer intention to adopt Islamic banking services. Because Indonesian society is predominantly Muslim, it could influence the way the society chooses the tools / the methods to solve the problems. Likewise, in terms of managing their personal finance, the majority of Muslims will prefer using Islamic banks to meet their financial needs.

The social environment has an effect on customer intention to adopt Islamic banking services in Indonesia. This result is in line with the research of Lada et al. (2009) and Lajuni et al. (2017) who revealed that environmental influencers such as scholars, teachers, parents, siblings also influence the individual in determining the intention to adopt Islamic banking services. This study also supports the existing literature of Echchabi and Aziz (2012a) Echchabi and Aziz (2012) about the relationship between social influence and

customer intention to adopt Islamic banking services. The influence of social influence on customer intention to adopt Islamic banking services in Indonesia is not much different from that in other countries. This situation is shown by the previous studies that confirm the strong relationship between social influence and customer intention to adopt Islamic banking services. Islamic scholars, teachers, parents, and relatives are the closest people in the Muslim community in Indonesia to influence individual choices in adopting Islamic banking services.

4.4. Theoretical and Practical Implication

The findings of this study have theoretical implications related to the intention of adopting Islamic banking services based on Roger's diffusion innovation theory (Rogers, 2003). Several previous studies have used Roger's diffusion innovation theory to examine customer intention to adopt Islamic banking services in several countries (Amin et al., 2013; Ayinde & Echchabi, 2012; Aziz et al., 2015; Echchabi

& Aziz, 2012b; Thambiah et al., 2011). A number of studies related to the adoption of Islamic banking services based on Roger's diffusion innovation theory revealed that the success of innovation is determined by marketing communication during the diffusion process (Schiffman & Kanuk, 2004).

Indonesia has a majority of Muslim population with a lesser number of Islamic banks of smaller size compared to the conventional banks. Besides, these banks have come into existence only in the last two decades, whereas conventional banks have been there for ages. The dominance of conventional banks in terms of number and size makes Islamic banks less well-known than conventional banks. Hence, the reputation of Islamic banks has no effect on customer intention to adopt Islamic banking services. This indicates that Islamic banks must pay attention to the brand image of Islamic banking (Amin et al., 2013; Hoq & Amin, 2012). Following the requirements set by Sharia principles will increase the credibility of Islamic banks (Gambling et al., 1993). According to Beekun and Badawi (2005), Islamic banks must demonstrate their accountability by ensuring that Islamic banks are only involved in business and community activities that are in accordance with Islamic values.

The complexity of Islamic banks is characterized by innovations developed by Islamic banks that do not affect the service. This study is consistent with Echchabi and Aziz (2012a, 2012b) who revealed the need for continuous information related to the innovations developed by Islamic banks. Islamic banks must apply marketing strategies by utilizing communication media to provide customers with knowledge about Islamic banks. Islamic banks need to optimize various information channels that are cheap, fast, and easily accessible to customers by using social media, such as Facebook, Instagram, Twitter, LinkedIn, and so forth.

5. Conclusion

This paper aims to identify the main factors that influence the adoption of Islamic banking services in Indonesia. The result shows that awareness and perceived compatibility have a positive effect on customer intention to adopt Islamic banking services. Additionally, religiosity and social influence have a significant and positive effect on customer intention to adopt Islamic banking services. Meanwhile, bank reputation and perceived complexity have no effect on customer intention to adopt Islamic banking services. On the other side, perceived risk has a negative and significant effect on customer intention to adopt Islamic banking services in Indonesia. This research emphasizes that Islamic banks in Indonesia must actively promote themselves to the public to improve the reputation of Islamic banks and to introduce innovations available in Islamic banking services.

This study has several limitations that must be considered in further studies. First, the samples used in this study are

from 27 out of 34 provinces in Indonesia. Therefore, it is necessary to recommend further research to cover more diverse samples from 34 provinces. Second, Indonesia has 34 provinces which have a distinct economic, social, educational and religious background. We recommend further research to examine the intention of customers to adopt Islamic banking services based on their geographic areas. Third, the variables used in this study could not represent the customer's knowledge about Islamic banking services. Therefore, additional variables of literacy and knowledge about Islamic banks are needed.

References

- Abou-Youssef, M. M. H., Kortam, W., Abou-Aish, E., & El-Bassiouny, N. (2015). Effects of religiosity on consumer attitudes toward Islamic banking in Egypt. *International Journal of Bank Marketing*, 33(6), 786–807. <https://doi.org/10.1108/IJBM-02-2015-0024>
- Ahmad, N., & Haron, S. (2002). Perceptions of Malaysian corporate customers towards Islamic banking products and services. *International Journal of Islamic Financial Services*, 3(4), 13–29. <http://staf.uum.edu.my/alib/wb3053/perceptions.pdf>
- Amin, M., Isa, Z., & Fontaine, R. (2013). Islamic banks: Contrasting the drivers of customer satisfaction on image, trust, and loyalty of Muslim and non-Muslim customers in Malaysia. *International Journal of Bank Marketing*, 31(2), 79–97. <https://doi.org/10.1108/02652321311298627>
- Ayinde, L. O., & Echchabi, A. (2012). Perception and adoption of Islamic insurance in Malaysia: An empirical study. *World Applied Sciences Journal*, 20(3), 407–415. <https://doi.org/10.5829/idosi.wasj.2012.20.03.1954>
- Aziz, H. A., Echchabi, A., & Ayedh, A. M. (2015). Current state and future prospects of Islamic banking in Morocco: An empirical investigation. *Journal of Emerging Economies and Islamic Research*, 3(2), 1–10. http://ir.uitm.edu.my/id/eprint/12379/2/AJ_HASSANUDEEN%20ABD.%20AZIZ%20JEEIR%2015.pdf
- Bananuka, J., Kaawaase, T. K., Kasera, M., & Nalukenge, I. (2019). Determinants of the intention to adopt Islamic banking in a non-Islamic developing country: The case of Uganda. *ISRA International Journal of Islamic Finance*, 11(2), 166–186. <https://doi.org/10.1108/IJIF-04-2018-0040>
- Bashir, M. S. (2012). Analysis of customer satisfaction with the Islamic banking sector: Case of Brunei Darussalam. *Asian Journal of Business and Management Sciences*, 2(10), 38–50. <http://www.ajbms.org/articlepdf/3ajbms20132102740.pdf>
- Bauer, R. A. (1960). *Consumer behavior as risk-taking, dynamic marketing for changing world*. Chicago, IL: American Marketing Association
- Beekun, R. I., & Badawi, J. A. (2005). Balancing ethical responsibility among multiple organizational stakeholders: The Islamic perspective. *Journal of Business Ethics*, 60(2), 131–145. <https://doi.org/10.1007/s10551-004-8204-5>

- Bizri, R. M. (2014). A study of Islamic banks in the non-GCC MENA region: Evidence from Lebanon. *International Journal of Bank Marketing*, 32(2), 130–149. <https://doi.org/10.1108/IJBM-04-2013-0035>
- Chebab, S., & Zribi, H. (2012). Expected regret and Islamic banking in emerging countries: The case of Tunisia. *Journal of Business Studies Quarterly*, 3(4), 119–131. <https://doi.org/10.1.1.653.3033>
- Daud, N. M., Kassim, N. E. M., Said, W. S. R. W. M., & Noor, M. M. (2011). Determining critical success factors of mobile banking adoption in Malaysia: Determining critical success factors of mobile banking adoption in Malaysia. *Australian Journal of Basic and Applied Sciences*, 5(9), 252–265. <http://ajbasweb.com/old/ajbas/2011/September-2011/252-265.pdf>
- Debab, N., & Yateem, H. A. (2012). Assessing the factors that influence trust in Bahraini retail banking after the financial crisis. *International Journal of Business, Management, Business, and Economics*, 3(3), 546–565. <http://www.ijbmer.com/docs/volumes/vol3issue3/ijbmer2012030305.pdf>
- Doraisamy, B., Shanmugam, A., & Raman, R. (2011). A study on consumers' preferences of Islamic banking products and services in Sungai Petani. *Academic Research International*, 1(3), 284–295.
- Dusuki, A. W., & Abdullah, N. I. (2007). Why do Malaysian customers patronize Islamic banks? *International Journal of Bank Marketing*, 25(3), 142–160. <https://doi.org/10.1108/02652320710739850>
- Echchabi, A., Ayinde Olorogun, L., & Azouzi, D. (2014). Islamic insurance prospects in Tunisia in the wake of the Jasmine Revolution: A survey from customers' perspective. *Journal of Islamic Accounting and Business Research*, 5(1), 15–28. <https://doi.org/10.1108/JIABR-06-2012-0032>
- Echchabi, A., & Aziz, H. A. (2012a). An empirical investigation of customers' perception and adoption towards Islamic banking services in Morocco. *Middle-East Journal of Scientific Research*, 12(6), 849–858. <https://doi.org/10.5829/idosi.mejsr.2012.12.6.1942>
- Echchabi, A., & Aziz, H. A. (2012b). The relationship between religiosity and customers' adoption of Islamic banking services in Morocco. *International Journal of Contemporary Business Studies*, 3(5), 25–31. <https://doi.org/10.1108/IJBM-02-2015-0020>
- Echchabi, A., & Olaniyi, O. N. (2012). Using theory of reasoned action to model patronization behavior of Islamic banks customer in Malaysia. *Research Journal of Business Management*, 6(3), 70–82. <https://doi.org/10.3923/rjbm.2012.70.82>
- Faisal, M., Akhtar, A., & Rehman, A. (2014). Awareness of Islamic banking in India: An empirical study. *International Journal of Engineering and Management Research*, 7(6), 1–13. <https://ijemr.in/wp-content/uploads/2018/01/Islamic-Banking-AN-Empirical-Study-of-Consumer-Preferences-in-India.pdf>
- Firdaus, R., Abdullah, S., Rahim, A., & Rahman, A. (2007). Factors influencing knowledge of Islamic banking services : The case of Malaysian bank managers. *Review of Islamic Economics*, 11(2), 31–54.
- Fornell, C., & Larcker, D. (1981). Evaluating structural equation models with unobservable variables and measurement error. *Journal of Marketing Research*, 18(1), 39–50. <https://doi.org/10.2307/3151312>
- Gait, A., & Worthington, A. (2008). An empirical survey of the individual consumer, business firm, and financial institution attitudes towards Islamic methods of finance. *International Journal of Social Economics*, 35(11), 783–808. <https://doi.org/10.1108/03068290810905423>
- Gambling, T., Jones, R., & Kamir, R. (1993). Creditable organizations: Self-regulation v. external standard-setting in Islamic banks and British charities. *Financial Accountability and Management*, 9(3), 195–207.
- Gerrard, P., & Cunningham, J. B. (2003). The diffusion of Internet banking among Singapore consumers. *International Journal of Bank Marketing*, 21(1), 16–28. <https://doi.org/10.1108/02652320310457776>
- Gerrard, P., Cunningham, J. B., & Devlin, J. F. (2006). Why consumers are not using internet banking: A qualitative study. *Journal of Services Marketing*, 20(3), 160–168. <https://doi.org/10.1108/08876040610665616>
- Gounaris, S., & Koritos, C. (2008). Investigating the drivers of Internet banking adoption decision: A comparison of three alternative frameworks. *International Journal of Bank Marketing*, 26(5), 282–304. <https://doi.org/10.1108/02652320810894370>
- Hamid, A. H. A., & Nordin, N. A. M. (2001). A study on Islamic banking education and strategy for the new millennium: Malaysian experience. *International Journal of Islamic Financial Services*, 2(4), 1–10. <http://www.iaif.ir/images/khareji/articles/bank/33.pdf>
- Hoq, M. Z., & Amin, M. (2012). The effect of trust, customer satisfaction, and image on customers' loyalty in the Islamic banking sector. *South Asian Journal of Management*, 17(1), 70–93. <https://doi.org/10.2139/ssrn.1851427>
- Huber, S., & Huber, O. W. (2012). The centrality of religiosity scale (CRS). *Religions*, 3(3), 710–724. <https://doi.org/10.3390/rel3030710>
- Ismail, S., Azmi, F., & Thurasamy, R. (2014). Selection criteria for Islamic home financing in Malaysia Universiti Teknologi MARA Melaka. *International Journal of Business and Society*, 15(1), 97–110. <http://www.ijbs.unimas.my/repository/pdf/Vol15No1paper6.pdf>
- Jamsihidi, D., & Hussin, N. (2013). Determining a conceptual framework for the adoption of Islamic credit card in the context of Malaysia. *Kuwait Chapter of Arabian Journal of Business and Management Review*, 3(1), 188–196. http://arabianjbmr.com/pdfs/KD_VOL_2_3/10.pdf
- Jarvenpaa, S. L., Tractinsky, N., Saarinen, L., & Vitale, M. (2000). Consumer trust in an Internet store: A cross-cultural validation. *Journal of Computer-Mediated Communication*, 5(2), 45–71. <https://doi.org/10.1111/j.1083-6101.1999.tb00337.x>
- Kaabachi, S., & Obeid, H. (2016). Determinants of Islamic banking adoption in Tunisia: An empirical analysis. *International*

- Journal of Bank Marketing*, 34(7), 1069–1091. <https://doi.org/10.1108/IJBM-02-2015-0020>
- Kaawaase, T. K., & Nalukwago, L. (2017). Religiosity and Islamic Banking in Uganda. *Makerere Business Journal*, 13(1), 70–93. https://www.academia.edu/35637344/2017_Religiosity_and_Islamic_Banking_in_Uganda_pdf?auto=download
- Khattak, N. A., & Rehman, K. U. (2010). Customer satisfaction and awareness of the Islamic banking system in Pakistan. *African Journal of Business Management*, 4(5), 662–671. <https://academicjournals.org/journal/AJBM/article-full-text-pdf/307F7CE23043>
- Kholid, M. N. (2019). Determinants of intention to use Islamic mobile banking: Evidence from the millennial generation. *Jurnal Ekonomi & Keuangan Islam*, 5(2), 53–62. <https://doi.org/10.20885/JEKI.vol5.iss2.art2>
- Lada, S., Tanakinjal, G. H., & Amin, H. (2009). Predicting intention to choose halal products using the theory of reasoned action. *International Journal of Islamic and Middle Eastern Finance and Management*, 2(1), 66–76. <https://doi.org/10.1108/17538390910946276>
- Lajuni, N., Wong, W., Ming, P., Yacob, Y., Ting, H., & Jausin, A. (2017). Intention to use Islamic banking products and their determinants. *International Journal of Economics and Financial Issues*, 7(1), 329–333. [https://ir.unimas.my/id/eprint/15372/1/Intention%20to%20Use%20Islamic%20Banking%20Products%20and%20Its%20Determinants%20\(abstrac\).pdf](https://ir.unimas.my/id/eprint/15372/1/Intention%20to%20Use%20Islamic%20Banking%20Products%20and%20Its%20Determinants%20(abstrac).pdf)
- Laroche, M., McDougall, G. H. G., Bergeron, J., & Yang, Z. (2004). Exploring how intangibility affects perceived risk. *Journal of Service Research*, 6(4), 373–389. <https://doi.org/10.1177/1094670503262955>
- Lateh, N., Ismail, S., & Ariffin, N. M. (2009). Customers' perceptions of the objectives, characteristics, and selection criteria of Islamic banks in Thailand. *Gadjah Mada International Journal of Business*, 11(2), 167. <https://doi.org/10.22146/gamaijb.5525>
- Mansumittrachai, S., & Chiu, C. (2012). Adoption of Internet banking in UAE: Factors underlying adoption characteristics. *International Journal of Management and Marketing Research*, 5(1), 103–115. <https://www.theibfr.com/download/ijmmr/2012-ijmmr/ijmmr-v5n1-2012/IJMMR-V5N1-2012-8.pdf>
- Metawa, S. A., & Almossawi, M. (1998). Banking behavior of Islamic bank customers: Perspectives and implications. *International Journal of Bank Marketing*, 16(7), 299–313. <https://doi.org/10.1108/02652329810246028>
- Mohanachandran, D. K., & Normala, S. G. (2019). Islamic banking implementation: Supportive role of business service. *Jurnal Pengurusan*, 57(December). <https://doi.org/10.17576/pengurusan-2019-57-09>
- Muslichah, I., & Sanusi, S. (2019). The effect of religiosity and financial literacy on the intention to use Islamic banking products. *Asian Journal of Islamic Management*, 1(2), 85–92. <https://doi.org/10.1108/AJIM.vol1.iss2.art2>
- Nguyen, V. A., & Nguyen, T. P. T. (2020). An integrated model of CSR perception and TAM on the intention to adopt mobile banking. *Journal of Asian Finance, Economics, and Business*, 7(12), 1073–1087. <https://ddoi.org/10.13106/jafeb.2020.vol7.no12.1073>
- Obeid, H., & Kaabachi, S. (2016). An empirical investigation into customer adoption of Islamic banking services in Tunisia. *Journal of Applied Business Research*, 32(4), 1243–1256. <https://doi.org/10.19030/jabr.v32i4.9734>
- Okumus, H. S., & Genc, E. G. (2013). Interest-free banking in Turkey : A study of customer satisfaction and bank selection. *European Scientific Journal*, 9(16), 1857–7881. <https://doi.org/10.19044/esj.2013.v9n16p%25p>
- Othman, A., & Owen, L. (2001). The multidimensionality of the carter model to measure customer service quality (SQ) in the Islamic banking industry: A study in Kuwait finance house. *International Journal of Islamic Financial Services*, 3(4), 1–12.
- Otoritas Jasa Keuangan. (2019). Indonesia's national financial literacy strategy. <https://www.ojk.go.id/id/berita-dan-kegiatan/publikasi/Pages/Strategi-Nasional-Literasi-Kuangan-Indonesia.aspx>
- Peng, L. S., Moghavvemi, S., & Teng, L. S. (2019). Trust and loyalty among Islamic and conventional bank customers in Malaysia. *Pertanika Journal of Social Sciences and Humanities*, 27(2), 1275–1295. <https://ssrn.com/abstract=3411507>
- Ram, S., & Sheth, J. N. (1989). Consumer resistance to innovations: The marketing problem and its solutions. *Journal of Consumer Marketing*, 6(2), 5. <https://doi.org/10.1108/EUM0000000002542>
- Rammal, H. G., & Zurbrugg, R. (2007). Awareness of Islamic banking products among Muslims: The case of Australia. *Journal of Financial Services Marketing*, 12(1), 65–74. <https://doi.org/10.1057/palgrave.fsm.4760060>
- Rattanaburi, K., & Vongurai, R. (2021). Factors influencing actual usage of mobile shopping applications: Generation Y in Thailand. *Journal of Asian Finance, Economics, and Business*, 8(1), 901–913. <https://doi.org/10.13106/jafeb.2021.vol8.no1.901>
- Ringle, C. M., Wende, S., & Becker, J. M. (2015). *SmartPLS*. Boenningstedt, Germany: SmartPLS, GmbH.
- Rogers, E. M. (2003). *Diffusion of innovation*. New York, NY: Free Press.
- Schiffman, L. G., & Kanuk, L. L. (2004). *Consumer Behavior*. Upper Saddle River, NJ: Prentice Hall Inc.
- Souiden, N., & Jabeur, Y. (2015). The impact of Islamic beliefs on consumers' attitudes and purchase intentions of life insurance. *International Journal of Bank Marketing*, 33(4), 423–441. <https://doi.org/10.1108/IJBM-01-2014-0016>
- Souiden, N., & Marzouki, R. (2015). Consumer attitudes and purchase intentions toward Islamic banks: The influence of religiosity. *International Journal of Bank Marketing*, 33(2), 143–161. <https://doi.org/10.1108/IJBM-10-2013-0115>
- Sudarsono, H., Nugrohowati, R. N. I., & Tumewang, Y. K. (2020). The effect of Covid-19 pandemic on the adoption of Internet banking in Indonesia: Islamic bank and conventional bank. *The Journal of Asian Finance, Economics, and Business*, 7(11), 789–800. <https://doi.org/10.13106/jafeb.2020.vol7.no11.789>

- Thambiah, S., Ismail, H., & Eze, U. C. (2011). Customer awareness and current usage of Islamic retail banking products and services in Malaysia. *Australian Journal of Basic and Applied Sciences*, 5(10), 667–671. <http://www.ajbasweb.com/old/ajbas/2011/October-2011/667-671.pdf>
- Thambiah, S., Ramanathan, S., & Mazumder, M. N. H. (2012). The determinants of Islamic retail banking adoption in Malaysia. *International Business & Economics Research Journal (IBER)*, 11(4), 437. <https://doi.org/10.19030/iber.v11i4.6880>
- The Jakarta Post. (2020). *Traceable: Stakeholders work to promote digital Sharia*. <https://www.thejakartapost.com/news/2020/11/30/traceable-stakeholders-work-to-promote-digital-sharia-economy.html>
- Venkatesh, V., & Davis, F. D. (2000). A theoretical extension of the technology acceptance model: Four longitudinal studies. *Management Science*, 46(2), 186–205. <https://doi.org/10.1287/mnsc.46.2.186.11926>
- Wahyuni, S. (2012). Moslem community behavior in the conduct of Islamic Bank: The moderation role of knowledge and pricing. *Procedia Social and Behavioral Sciences*, 57, 290–298. <https://doi.org/10.1016/j.sbspro.2012.09.1188>
- Yusof, M. Y. R. (1999). *Islamic banking: Adoption of service innovation*. Singapore: NTU Singapore.