

# Switching Behavior of Customers from Conventional Bank Services to Islamic Bank Services

Yayuk Sri Rahayu

State Islamic University of Maulana Malik Ibrahim Malang  
yayuk@pbs.uin-malang.ac.id

Siswanto

State Islamic University of Maulana Malik Ibrahim Malang

Nur Asnawi

State Islamic University of Maulana Malik Ibrahim Malang

Ustatun Hasanah

State Islamic University of Maulana Malik Ibrahim Malang

**Abstract.** The development of Islamic banking has given a new alternative for customers who have long been using the services of conventional banks. The widespread of Islamic banks has also been found in areas which major population is non-Muslims. The purpose of this study was to determine the factors that encouraged the switching behavior of conventional bank customers to use the services of Islamic banks. This study used qualitative methods with a case study approach. Primary and secondary data were collected through interviews, observations, and documentation. The triangulation method was employed to test the validity of the data. The process in data analyses involved data collection, data reduction, data presentation, and conclusion. The results showed that several factors influenced the switching behavior of customers from conventional bank services to Islamic bank services. These included the price as the strongest driving factor, sales promotions, new products, and quality (although quality did not strengthen the switching behavior of customers). Furthermore, there were both internal and external factors of customers influencing their switching behavior.

**Keywords:** switching behavior, conventional banking, Islamic banking

## INTRODUCTION

Our current banking competition has left customers with abundant attractive products making it easy for them to switch to other products or brands; this also happens to bank customers in Indonesia. The rapid growth of Islamic banking has also led to brand shifts to consumers, started by Bank Muamalat funded in 1992 as the first Islamic banking in Indonesia. At present, it has spread throughout Indonesia even in areas of predominantly non-Muslim. Community acceptance of Islamic banking products has improved as time goes on indicated by the continued increase in the total number of deposits, total loans, and other products by both Muslim and non-Muslim customers

of the Islamic banks [1]. Likewise, support for the Islamic banking system is also increasing, as seen in the use of products offered, such as accounts, checking accounts, and other investment products.

In promoting the Islamic banking system, prospective customers who have known about Islamic banks are willing to use services offered by Islamic banks. Some completely understand that the Islamic banking system is not only for Muslims. Therefore, it is important to raise public understanding of Islamic banks through right marketing programs and promotions to open up understanding, both customer banking and corporate banking, about the system and services of Islamic banks. As many as 197 professions, including doctors, lawyers, entrepreneurs, traders, and business owners using Islamic banking services, confirm that their decision to be customers of Islamic banks is not due to religious motivation—their utmost motivation is the profit they will get [1]. In addition, interpersonal relations and individual approaches play a more important role in attracting someone's interest to use the services of Islamic banks. They know that halal and fair results are the main principles underlying every economic or business activity and investment they do. Thus, religious leaders in the community are expected to help communities (at least the Muslim community) to choose Islamic banks and to establish awareness about economic development or investment through Islamic financial institutions, since the Islamic system applies profit-loss-sharing modes (PLSM) and income distribution that people can benefit.

By both conventional and Islamic banking services, the possibility of customers to switch services is even greater; this behavior is usually known as switching behavior. In banking, switching behavior represents the behavior of bank customers in choosing a product that provides sufficient satisfaction and value [2]. The value or price offered affects customer satisfaction, and the evaluation of customer satisfaction influences the intention to switch to another service provider [3].

Islamic banking marketing is also an effort to create satisfying services for customers through product sales and to generate optimal (not excessive) profits for banks. The first consideration of Muslim customers usually is free of *riba* followed by consideration on how products offered can satisfy their desires. Banks (conventional and Islamic) have a strategic function as an intermediary and provide services related to payments, but characteristics of both conventional and Islamic banks can influence the behavior of prospective customers in determining their choice.

Factors that influence switching behavior include the price, reputation, response to failed services, service quality, customer satisfaction, product service, customer commitment, demographic characteristics, advertising effectiveness competition, and voluntarily switching [2]. Factors affecting customers to move to other banks include profitability, staff, accessibility, costs, and physical appearance of the bank [4]. In addition, it has also been found that the price, clan, product, commitment, sales promotions, location, service, satisfaction, and reputation also influence consumer decisions to switch [5].

Previous studies suggest that switching behavior can occur in various industries and factors that influence it are almost the same. However, previous research was carried out in areas where the majority of the people was Muslim; thus, the present study fills the gap on switching behavior in the banking service industry in areas where the majority of the population is non-Muslim.

#### METHOD

This study was qualitative with a case study approach. The subject was Islamic banking in Sorong, West Papua. Sorong was chosen because the its major residents are Christians (79.68%). Case study research is qualitative research that includes the study of a case in real life, in contemporary settings or a variety of limited systems [6]. Respondents in the study were two branch managers, one retail-funding person, two customer service staff, and five Islamic banking customers. The data consisted of primary data and secondary data collected using interviews, observations, and documentation. The validity test was done using the triangulation method. The data analysis included data collection, data reduction, data presentation, and conclusion drawing.

#### RESULT

Findings showed that the price, sales promotions, new products, quality, internal factors, and external factors caused conventional bank customers to switch to Islamic banks. The internal factors included the desire to seek new alternatives, dissatisfaction, and consumer knowledge about the brand. The external factors were environmental factors from consumers that could affect the transfer of services in the form of advertisements, promotions, and so

on. In addition, it was also found that the dominant factors causing the switching behavior of conventional bank customers to Islamic banks were the price, sales promotions, and external factors. The Islamic banks in Sorong apply the price suitable with the level of welfare of the neighborhood community, so it reaches the target and everyone can enjoy the service offered. The high number of customers moving from conventional banks to Islamic banks has proved that customers prefer the price offered by Islamic banks, from the administrative costs to the benefits they will get. This is in line with the explanation given by the banker of the Islamic banks in Sorong and this has been justified by the customers as well. Our observations strengthen the matter—customers are satisfied with the prices set by Islamic banks that are inversely proportional to the expensive the price of conventional banks in each product they have.

The sales promotions program by Islamic banks is in accordance with the values in Islam. Practically, sales promotions in Islamic banks take into account several elements. *First*, the product and benefit are definitely clear; benefits provided to customers are derived from the distribution of funds for businesses and this certainly does not violate Islamic teachings. *Second*, every stakeholder of Islamic banks in Sorong maintains a good relationship with customers. This can be seen from the way the staff interact with customers; the bankers and customers also said that the bankers visited customers on religious holidays. *Third*, the marketing and promotion to introduce Islamic banks and the products are done based on Islamic principles. Bankers do sales promotions professionally and they tell about the bank and the products honestly. They do not discredit other banks. The customers confirmed that sales promotions carried out by Islamic banks were very informative and attractive that they finally decided to switch to Islamic banks. *Fourth*, sales promotions of Islamic banks focus on the right targets, meaning that bankers introduce their products according to the needs of prospective customers that they finally decided to become customers, as stated by the bankers. These four actions have helped the Islamic banks to maintain the number of customers and even to get new customers. The customers involved in this study also agreed that their switching behavior was influenced by sales promotions of the Islamic banks.

From the results of interviews and observations, Islamic banks continue to develop every product in order to compete with other banks, so Islamic banks can be accepted by the public. However, new products are not the main reason for customers to switch to Islamic banks. They switch because they are also concerned about the price of the products and the benefits they will get. If the new product fulfills the desire of customers, they are not hesitant to switch. The service quality provided by Islamic banks has been accustomed to the expectation of customers, as confirmed by bankers from Islamic banks in

the interviews. Good services, as the bankers believed, are one of the ways to maintain old customers while collecting new ones.

Based on interviews and observations, customers' internal factors affect much of the switching behavior from conventional banks to Islamic banks. Customers want to know about the products of Islamic banks, hoping that the products are different from those offered by conventional banks they previously used. One of the customers involved in the study said that people moved to Islamic banks because of the desire to know about Islamic banks and to find something different. Their desire initially grew during sales promotions.

Based on interviews and observations, external factors play an important role in the process of switching behavior of customers. Some customers acknowledged that they moved from conventional banks to Islamic banks for several reasons, such as the people around them became customers of Islamic banks, and informative sales promotions by staff of Islamic banks that helped them to figure out all the new things and benefits they would get. Both bankers and customers agreed on this statement.

The results of this study are in line with previous research stating that the price, reputation, service quality, promotion, compulsion to move to another bank, the effect of attitudes towards intention to move, and the experience in moving to another bank affect someone's decision to switch to another bank (switching behavior) [7]. Other studies have also found that customer commitment, service quality, company reputation, customer satisfaction, age level, and low education level are factors that influence customers to switch [2]. The results are also in line with previous studies that state the price, advertising, products, commitment, sales promotions, physical business environment (local), service, satisfaction, and reputation influence consumer decisions to switch [5].

#### CONCLUSION

Based on the research findings, it can be concluded that several factors influence the switching behavior of customers of conventional banks to Islamic banks. Among these factors are the price (as the most powerful factor), sales promotions, new products, service quality, internal factors, and external factors. However, some customers do not put quality as to have much influence on their decision to move to Islamic banks. The internal factors, arising

directly from within customers, are not a reinforcing factor in the switching, yet the external factors do the vice versa.

Based on the results of the study, Islamic banks can be the main bank for the community in conducting financial transactions, considering the price as the most dominant factor for customers to choose banking services. Islamic banks must pay attention to the value for money for customers. If Islamic banks want to increase the price of the product they have, they must pay attention to the advantages and benefits customers will get.

Islamic banks must be able to do good sales promotions and attract new customers or prospective customers. They must be able to compete with other banks, so customers are willing to use the (new) products offered. Islamic banks must also be able to maintain a good image by improving and maintaining the quality of services, starting from human resources, products, to the office environment. It is also important for Islamic banks to conduct a customer satisfaction survey periodically to monitor customers' satisfaction on services and products the banks offered.

#### REFERENCES

- [1] H. Choudhury, and G. Khataniar, "Features Based Comparison and Hasan, A. *Marketing Bank Syariah*. Bogor: Ghalia Indonesia, 2010
- [2] Clemes, e. a. Customer Switching Behavior in the New Zealand Banking Industry. *Banks and Bank Systems*, Vol 2, 2007
- [3] Hasan Haslinda, e. a. Effect of Perceived Value and Trust on Customer Loyalty Towards Foreign Banks in Sabah. *Global Journal of Emerging Trends in e-Business, Marketing and Consumer Psychology (GJETeMCP)*, Vol 1, 2014
- [4] Abduh, d. Customer Satisfaction and Switching Behavior in Islamic Banking : Evidence from Indonesia. *Jurnal Internasional*, Volume 3, 2012
- [5] Romadhon, G. Analisis Faktor-faktor yang Mempengaruhi Perilaku Perpindahan Pelanggan. *Jurnal Manajemen dan Akuntansi*, Vol 2, No 3, 2013
- [6] Cerswell, J. W. *Penelitian Kualitatif dan Desain Riset*. Yogyakarta: Pustaka Pelajar, 2015
- [7] Pursetyaningsih. Pengaruh Harga, Reputasi, Kualitas Jasa, Promosi, Keterpaksaan Berpindah, dan Rekomendasi Pada Perilaku Nasabah Berpindah Bank. *Jurnal Manajemen Teori dan Terapan*, Tahun 1, No 3, 2008