

Islamic Banking & Finance

Issues & Solutions

Edited by
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Chapter Four

Who patronizes Islamic Banks in Indonesia?

Muhamad Abduh & Mohd Azmi Omar

Abstract: After the Ulama Council of Indonesia (MUI) announced the fatwa that prohibits bank interest at the end of 2003, many Muslim banks' customers shifted their deposits to Islamic banks. However, the number of customers and the amount of money shifted to Islamic banks were not significant compared to those who chose to remain. The purpose of this paper is to investigate the effects of religiosity, perceptions towards banks and demographic variables of customers when it comes to selecting a bank using the forward stepwise method of binary logistic. The results suggest that individual, who put shariah issue as his/her first consideration in patronizing a particular bank, recognized the fatwa announced by MUI on the impermissibility of bank interest, and safety of fund during the financial crisis, were the main reasons for patronizing the Islamic banks in Indonesia. In addition, the banks' advertisements highly influenced individuals to patronize the banks.

Keywords: *logistic regression analysis, depositors' behavior, religiosity, Islamic banks*

JEL Classification Codes: C35, G31, M31

1.0 Introduction

Indonesia is a country within the South East Asian region with the largest Muslim population in the world. It has a total population of 290 millions, 80 percent or 232 millions of them are Muslims. Although the number and proportion of Muslims is significantly large, it does not correspond to the share of Islamic banking assets vis-a-vis the total banking assets in the country¹.

History of Islamic banking in Indonesia began in 1992, when the government introduced Banking Act No. 7, which allowed banks to operate on Islamic principles. This led to the establishment of