

## **SYARIAH BANKING: CONSUMERS' EXPECTATION AND PERCEPTION TOWARDS SMS BANKING**

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### **ABSTRACT**

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The Syariah Bank system is currently facing strong competition not only from other Islamic Banks but also from well-established conventional banks that offer Islamic products and services via Short Message Service (SMS) banking technology. It is a technology-enabled service permitting banks to operate selected banking services over the customers' mobile phone using SMS messaging. This study aims to examine Syariah Banking consumers' expectation and perception towards SMS Banking in Bintan Island Indonesia. A total of 111 respondents provided complete responses with 95.5% of them familiar with both Islamic and commercial bank transactions and also understand that SMS facilities can be used for banking transaction (65.8%). A small group of them has used their mobile phone for SMS Banking. These findings can be a signal and reference for financial institutions, Syariah Banks in particular, to understand and focus their marketing strategies on these aspects.

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**Keywords:** *Expectation, Perception, SMS, Banking, Syariah, Indonesia*

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## **Introduction**

Mobile phone is one of the most promising opportunities for financial service providers to offer their services via multiple electronic channels, but on the other hand some of the consumers are not aware of this technology due to lack of awareness and they are not willing to use it because the technology also has introduced new risks and threats from hackers, thieves and crackers (Katz, 1997). But it seems inevitable that at some point soon it will become an established banking channel. This paper is concerned with one application of mobile banking: Short Message Service (SMS) banking. The aim of this paper is to examine Syariah Banking consumers' expectation and perception towards SMS Banking in Bintan Island Indonesia.

## **Islamic Financial Institutions in Indonesia**

Islamic finance in Indonesia comprises two types of institutions ([www.bi.go.id](http://www.bi.go.id)):

- (i) banking institutions, which fall under the banking law, and
- (ii) financial cooperatives

There are three types of Islamic banking institutions, of which the first two fall into the legal category of commercial banks:

- a. Full-fledged Islamic commercial banks : Bank Umum Syariah (BUS)
- b. Islamic banking units of commercial banks : Unit Usaha Syariah (UUS)
- c. Islamic rural banks : Bank Perkreditan Rakyat Syariah (BPRS)

Currently in Bintan Island, Kepulauan Riau there are only three banks that can fulfill the need and/or demand of Islamic Banking products:

- a. Bank Muamalat Indonesia
- b. Bank Syariah Mandiri
- c. Bank Riau Syariah

The above banks are full-fledged Islamic commercial banks, known as Bank Umum Syariah (BUS) in Indonesia.

Data from MARS Indonesia mentioned that the consumers of conventional bank are very interested in functional benefit. This is different with Syariah Bank consumers where the main factor for them to choose Syariah Bank is mostly due to Syariah compliance and Riba free while the rest are functional benefits such as safety, location, profit sharing and quality of service, as can be seen in Table 1 (Subroto, 2008).

## **SMS Banking Acceptance in Indonesia**

Nowadays, the SMS technology has become very popular and is used by most of the Indonesians not only for communication but also for banking purposes. Bank Negara Indonesia (BNI), the second largest bank in Indonesia, has already provided the same service like other banks, and since April 2006 when it launched its SMS banking service to fulfill their customers' need ([www.bni.co.id](http://www.bni.co.id)). It was recorded in Museum Rekor Dunia Indonesia their better achievements in using SMS banking program with the support from 7 providers of main GSM and CDMA Telecommunication (Telkomsel, Indosat, Esia, Fren, XL, 3, Fleksi) in Indonesia compared to other banks (Rekor MURI, 2007).

This is one of the marketing strategies used by BNI to promote its product to fulfill consumer needs.

Table 1: Reasons to Choose Syariah Bank

No.	Reason(s) to Chose Syariah Bank (respondents may chose more than one reason)	Total
1	Syariah Compliance	48.9
2	Free from riba	37.9
3	Safety	16.3
4	Location	12.7
5	High profit sharing	12.5
6	Good quality service	10.9
7	Other	50.1
Total		186.1

Source : MARS Research 2008, cited in Subroto, 2008

Table 2 showed that M-BCA (Bank Central Asia) is the most preferred bank for banking transaction via mobile phone compared to other SMS banking providers voted by the respondents in two big cities in Indonesia: Jakarta and Surabaya (Subroto, 2008).

Table 2: Mobile Banking Preference

Mobile Banking Name	Total	Jakarta	Surabaya
M-BCA	87.4	87.6	87.3
SMS Banking Mandiri	36.8	33.5	40.1
BNI SMS Banking	21.6	18.2	25.0
Permata Mobile	10.5	11.0	9.9
Niaga Ponsel Access	8.6	5.3	11.8
Danamon HP Banking	5.0	3.3	6.6
Mega Mobile Banking	4.0	2.9	5.2
Mobile Panin	2.1	1.9	2.4
Mobile Lippo	1.7	1.4	1.9
HSBC Mobile	1.2	1.4	0.9
Bukobin Mobile Banking	0.7	1.0	0.5
Citibank Banking	0.7	1.0	0.5
Standard Chatered Mobil Banking	0.5	0.5	0.5
BII Phone Banking	0.5	0.5	0.5
BRI Banking	0.2	0.0	0.5
Ponsel Banking HSBC	0.2	0.5	0.0
Don't know	1.4	1.4	1.4
Total	183.1	171.4	195.0

Source : MARS Research 2007, cited in (Subroto, 2008)

### Literature Review

According to Ayadi (2005), mobile banking is considered to be one of the most value added and important mobile services available. He identified four use cases of mobile banking: request of account balance, control of account movement, instant payment and

account administration. This use cases correspond to specific customer, needs and depends as well on the wireless device available on the telecommunication network performance. Laforet & Li (2005); Howcroft *et al.* (2002) research on mobile and Internet banking has claimed that the respondent's level of education was not found to influence online and mobile banking adoption. Al-Ashban *et al.* (2001) ascertained that 87% of the respondents have an education higher than diploma. 40.2% of them have started using tele-banking services for less than one year. In fact, as far as mobile banking is concerned, the lack of understanding of its benefits was found significant. At least amongst the urban population surveyed, 33% used online banking and 14% used mobile banking. Thus, the level of awareness of such services was low in China. Howcroft *et al.* (2002) revealed that younger consumers value the convenience or time saving potential of online and mobile banking more than older consumers. Younger consumers also regarded the lack of face-to-face contact as less important than older consumers. However, Suoranta and Mattila (2004) and Riihari (2005) claimed that mobile phone banking was very sophisticated.

Mattila (2003) discovered that respondents aged 18-34 are considered as the population who is actively using mobile phones for banking purposes. Findings of this study also indicated that payment of bills is cheaper, transaction has faster data transmission rate, and security through authentication is tighter with mobile phone compared to Internet bank. Such are considered as among the main factors why they used mobile phones for banking transactions. Karjaluoto *et al.* (2002) investigated the bank customers' perception on private banking in Finland during the summer of 2000. The researchers claimed that the consumer segments of private banks in Finland could be classified into two categories. Firstly, the low frequency users' main trend for banking is via the branch and use of telephone to access accounts, which means online activities are rare (around 1-3 times a month). Secondly, the high frequency usage for banking is via the Internet, meaning that they bank online on a weekly or even daily basis. The finding also indicated that high frequency users for mobile phone, Internet bank, ATM and others were those aged around 35-49 and the total was amounted 281, which were considered as profitable segment for banks.

## **Methodology**

A self-administered survey was developed and administered to 150 Syariah Banking consumers at Bank Muamalat Indonesia, Bank Syariah Mandiri and Bank Riau Syariah in Bintan Island Indonesia, resulting in 111 surveys being gathered with 74% response rate. Respondents came from a random sample of consumers drawn from a database of the three banks. The collected data were subsequently input to SPSS version 13 for descriptive type of data analysis.

## **Data Analysis and Findings**

### **Demographic Profile of the Respondents**

Demographic analysis emphasizes on the respondents background. Table 3 described the demographics profile of respondents. The total number of the respondents involved in this study is 111 persons. The majority of them are female (55.9%) and the balance are male at the age between 20 to 37 years old. 61.3% are married, 31.5 % are Javanese and 28.8% are Malay. With regards to religion, Islam (97.3%) led the list. They hold Senior

High School certificate (46.8%) and mostly are working at the private sector with an income less than Rp 2,000,000 per month (65%).

Table 3: Demographics Profile of the Respondents

	<b>Variables</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Gender</b>	Male	48	43.2
	Female	62	55.9
<b>Age</b>	Below 20 years	2	1.8
	20-25 years	31	27.9
	26-31 years	19	17.1
	32-37 years	31	27.9
	More than 37 years	28	25.2
<b>Race</b>	Malay	32	28.8
	Acehnese	1	0.9
	Minang	23	20.7
	Chinese	4	3.6
	Javanese	35	31.5
	Bataknese	6	5.4
	Bugisnese	4	3.6
	Others	6	5.4
<b>Religion</b>	Islam	108	97.3
	Buddhist	1	0.9
	Catholics	1	0.9
	Confucius	1	0.9
<b>Level of Education</b>	Elementary School	3	2.7
	Junior High School	1	0.9
	Senior High School	52	46.8
	Diploma	22	19.8
	Under Graduate Degree	32	28.8
	Masters Degree/PHD	1	0.9
<b>Marital Status</b>	Single	41	36.9
	Married	68	61.3
	Widow/widower	2	1.8
<b>Salary per month</b>	Less than Rp 2,000,000	73	65.8
	Rp 2,000,001 – Rp 4,000,000	29	26.1
	Rp 4,000,001 – Rp 6,000,000	3	2.7
	Rp 6,000,001 – Rp 8,000,000	1	0.9
	Rp 8,000,001 – Rp10,000,000	3	2.7
	More than Rp 10,000,000	2	1.8
<b>Designation</b>	Student	17	15.3
	Civil Servant	11	9.9
	Private	49	44.1
	Worker	23	20.7
	Others	11	9.9

### Expectation and Perception on SMS Banking

The following tables (Table 4 and 5) are the results of Syariah Banking consumers' expectation and perception towards SMS Banking in Bintan Island Indonesia. All measures were in the five point Likert-type scales with poles from very unimportant to very important. As inferred in Table 4, the respondents expected that the reliability of new product as crucial when using SMS Banking, 41.4% expressed as important and 43.2% said very important. These expressions could be related to the security of the transaction where 55% of the respondents mentioned it. Security is very important to take note when doing transaction via mobile phone.

The respondents tend to use SMS Banking (44.1% and 44.1%) to save time and cost and if the Bank applied Advance technology (41.4% and 48.6%) for the system in order to have punctuality of new product (37.8% and 55.9%). The respondents also prefer to be educated first in using this facility (48.6% and 36.9%) because different Banks may offer different system and method for SMS Facilities. Customer friendly service is needed and considered important (33.3% and 61.3%). Furthermore, SMS Banking will also uphold service effectiveness in banking transactions (43.2%).

Table 4: Description of Expectation and Perception towards SMS Banking

Statements	VU	U	N	I	VI
Reliability of the new product	1 (0.9%)	6 (5.4%)	10 (9.0%)	46 (41.4%)	48 (43.2%)
Security is stressed	0 (0%)	7 (6.3%)	11 (9.9%)	32 (28.8%)	61 (55.0%)
Time and cost saving	0 (0%)	4 (3.6%)	9 (8.1%)	49 (44.1%)	49 (44.1%)
Advance technology	0 (0%)	3 (2.7%)	8 (7.2%)	46 (41.4%)	54 (48.6%)
Punctuality of the new product	0 (0%)	1 (0.9%)	6 (5.4%)	42 (37.8%)	62 (55.9%)
Educating customers to use the new product	0 (0%)	6 (5.4%)	10 (9.0%)	54 (48.6%)	41 (36.9%)
Customer friendly service	0 (0%)	3 (2.7%)	3 (2.7%)	37 (33.3%)	68 (61.3%)
Effectiveness	0 (0%)	3 (2.7%)	9 (8.1%)	48 (43.2%)	51 (45.9%)

Note: VU (very unimportant), U (unimportant), N (neutral), I (important) and VI (very important)

Further investigation of the result as stated in Table 5 showed that the respondents gave priority to "customer friendly service" (mean 4.531) for service offered by Syariah Banks. It is marked very important by the respondents. Then, it is followed by "punctuality of new product", (mean 4.486). Advance technology (4.360) is one of the important criteria needed by respondents as mobile phone culture based on adoption of new technology. Subsequently, the respondents also set a requirement to the Syariah Banks to guarantee them a sense of security (mean = 4.324) during their SMS banking transaction activities. This is evidently important to them because consumers will refrain from making any transaction if they know the system is not secured. Besides, the effectiveness in using

SMS Banking (mean = 4.324) is also an issue that Syariah Banking consumers' are concerned of. For instance, the complicated procedural methods may cause the low usage of SMS Banking facilities and services.

Table 5: Descriptive Statistics on Expectation and Perception of SMS Banking

Statements	N	Mean	Std. Deviation	Std. Error Mean
Reliability of the new product	111	4.2072	.88541	.08404
Security is stressed	111	4.3243	.89607	.08505
Time and Cost Saving	111	4.2883	.76737	.07284
Advance technology	111	4.3604	.73599	.06986
Punctuality of the new product	111	4.4865	.64477	.06120
Educate customers to use the new product	111	4.1712	.80762	.07666
Customer friendly service	111	4.5315	.68517	.06503
Effectiveness	111	4.3243	.74054	.07029

Based on this study, the respondents also gave priority on time and cost saving (mean = 4.288). This in line with the study conducted by Mattila (2003) that cheaper bill payment is one of the components under "time and cost saving" in SMS Banking. Reliability of the new product has a mean of 4.207 followed closely by educating customers to use the new product (mean = 4.171). Therefore, Syariah Banks in Bintan Island Indonesia should provide not only simple and clear guidelines on how to use SMS Banking proficiently but also need to endow with several channels for direct interaction with the banking system in case of misunderstanding in code or method during transaction processing. The rationale is that people have the tendency to learn based on human physical interaction like through question and answer method.

### **Conclusion**

All in all, it was clear that all the eight attributes investigated were important for Syariah Banks to take heed on when offering SMS Banking activities to the Syariah Bank consumers in Bintan Island Indonesia. Educating consumers on the usage of SMS for banking transaction could be a good solution to increase the usage of SMS banking as it allows banks and financial institutions to provide real-time information to customers. Security is one of key aspects need to be further laid emphasis on by financial institutions, to ensure all consumers feel safe (increase comfort and convenience) when performing banking transaction via mobile phone, for instance SMS Banking. It is extremely important for financial institutions and future researchers to perform regression analysis to observe the relationship between Syariah Bank consumers' expectation and perception toward the application of SMS Banking with the demographic variables: race, gender, designation, educational level, salary per month and religion to better serve their banking transactions to the maximum.

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