Potential demand for Islamic banking: examining the Islamic consumer behavior as driving factor

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Abstract

Purpose – This study aims to examine the impact of Islamic consumer behavior on the potential demand for Islamic banking by using the Islamic religiosity approach. By classifying the potential demand into the high, middle and low categories, this study attempts to examine whether the level of potential demand is influenced by aspects of social, cultural, psychological and personal considerations.

Design/methodology/approach – This research was a quantitative study based on a survey on 18 regions in West Sumatera, Indonesia in 2019. Data were collected from 1818 respondents and analyzed by using multinomial logistic regression.

Findings – The findings reveal that the increasing factor of social and personal causes the tendency of the community to be in the high potential group as an Islamic bank customer by 1,661 times and 1,592 times as compared to in the low potential group. Psychological aspects also increase the probability of the community being in the medium demand potential as an Islamic bank customer.

Research limitations/implications – Although this study has attempted to elaborate on the consumers' behavior variable with an Islamic religiosity perspective, theoretically this concept is not yet well established and still requires many applications in future research. Future studies are expected to enrich this analysis by examining more cases with communities that have different socio-demographic characteristics. This study also limits the exogenous variables used as predictors.

Practical implications – This study aims to assist managers of Islamic banks to formulate strategies for developing Islamic banks based on Islamic consumer behavior because the facts showed that understanding of Islamic law and religious education in the family, Islamic lifestyle and also religious beliefs affected the potential demand for Islamic banks.

Social implications – From a policy perspective, this finding can be a consideration for Islamic banks, that the expansion of the market share of Islamic banks will be more appropriately directed to Muslim groups with indications of high adherence to Islamic values, those with Islamic lifestyles, and the Muslim community groups with Islamic understanding backgrounds and good religious education.

Originality/value – This study measures the impact of Islamic religiosity on the probability of people being in the high, medium or low potential group in adopting Islamic bank services, and these findings are important in the development of Islamic banking in Muslim-majority countries.

Keywords Islamic bank, Islamic consumer behavior, Islamic religiosity

Paper type Research paper

1. Introduction

The study of potential demand becomes the main consideration in determining the policy of expanding the market share of an Islamic bank in an area or a particular community. A large number of Muslims in an area does not automatically imply high potential demand because the potential demand for Islamic banks is highly dependent on the behavior of the people in the area. Each particular community is believed to have a combination of superior factors that encourage the demand for Islamic bank (IB) services so that potential demand varies greatly

according to the economic and socio-cultural conditions of the community in an area. This information can only be extracted through a comprehensive study of consumer behavior because the development strategy of Islamic banking depends on the particular characteristics of the community in an area. By knowing the level of potential demand in a region and the determinants of its achievement, the development strategy of Islamic banks can be designed based on consumer behavior.

Some previous literature reviews on Islamic marketing stated that Islamic banks should have been chosen for reasons of Islamic religiosity or belief in Islamic values. Islamic religiosity is considered to have contributed to the choice of Islamic bank as the main bank by most of the Muslim community because Islamic banks are free from transactions that contain elements of injustice such as usury, *Gharar* and *Maysir* which are prohibited in Islam (Kahf, 2007). Some empirical findings also support this theoretical statement by stating that Islamic religiosity and social influence are two of the most important reasons why people adopt Islamic banking (Amin *et al.*, 2011; Awan and Azhar, 2014; Lajuni *et al.*, 2017; Mohanachandran and Normala, 2019; Charag *et al.*, 2020; Sudarsono *et al.*, 2021). Furthermore, it was revealed that psychological and personal decisions such as the existence of subjective norms and religious obligations (Bananuka *et al.*, 2019; Maryam *et al.*, 2019), behavioral beliefs (Aziz and Afaq, 2018) and religious understanding (Mahdzan *et al.*, 2017; Mbawuni and Nimako, 2017; Hassan *et al.*, 2020; Janah *et al.*, 2020) are some important factors in the analysis of demand for Islamic banking.

According to the increasingly competitive development of Islamic banking, consideration of the adoption of Islamic banking services is not only based on Islamic religiosity, but personal rationality also strengthens the reasons for choosing Islamic banking. Competitiveness factors such as customer satisfaction, service quality and the accessibility of the banks (Hamzah *et al.*, 2015), perceived advantages (Mahdzan *et al.*, 2017; Mbawuni and Nimako, 2017), customer awareness (Ali and Puah, 2017) and also Islamic lifestyle (Kaabachi and Obeid, 2016; Janah *et al.*, 2020) has become important parts of individual decisions in the demand for Islamic banks. Although many determinants have been predicted to affect the level of demand for Islamic banks, a religious reason is still believed to be an important reason behind all the reasons that drive the potential demand for Islamic banking services. Another study concluded that religious reasons affect the potential demand for Islamic banking, especially for countries with a majority Muslim population (Hassan *et al.*, 2020; Suhartanto *et al.*, 2020).

Previous studies implied that Islamic religiosity is interactively integrated within conventional factors of consumer behavior such as socio-cultural, psychological and personal aspects of each individual in influencing consumer decisions in adopting Islamic banking services. Kotler and Armstrong (2008) have provided a well-established theoretical concept that claims that socio-cultural, psychological and personal factors are fundamental factors in predicting consumer buying behavior toward products or services. These factors have been widely used by the researchers to predict consumers' buying decisions in various areas of research, including in the area of Islamic banking, although rarely implemented simultaneously in predicting the demand for Islamic banking services. A qualitative study by Karoui and Khemakhem (2019) emphasized that halal consumption is not only related to religious affiliation but also the product of various social, cultural and psychological factors. Moreover, some studies in developing countries have extended these consumer behavior factors as predictors in determining consumer buying behavior toward IB services (Awan and Azhar, 2014; Charag *et al.*, 2020). Other studies also confirmed the importance of psychological and personal aspects in the decision to adopt Islamic banking services such as behavioral beliefs (Aziz and Afaq, 2018), religiosity (Junaidi *et al.*, 2021) and also some other things covering Islamic values,

sharia compliance, honesty, modesty, humaneness and trustworthiness (Asnawi *et al.*, 2020). Furthermore, it was emphasized that the compatibility of Islamic banks with the consumer's religious beliefs, Islamic values, lifestyle and banking practices have a positive influence on the intention to use the Islamic banks (Kaabachi and Obeid, 2016). In the case of Muslim behavior in Indonesia, Suhartanto *et al.* (2020) has confirmed that customer loyalty to Islamic banks was driven more by emotional interest and religiosity than perceived service quality.

This study aims to predict the potential demand for Islamic banking with the variables of Islamic consumer behavior as predictors. This research offers the development of theoretical aspects as well as methodological expansion at some points. This study investigates deeply the impact of consumer behavior factors such as socio-cultural, psychological and personal on the level of potential demand for Islamic banking by using the Islamic religiosity framework. The theoretical model is expected to be able to extend the concept of Islamic consumers' behavior which is constantly evolving along with the cases that always appear. Methodologically, this study examined the effect of Islamic consumers' behavior on the potential demand for Islamic banking by using the multinomial logistic regression method. By separating the criteria for achieving potential demand into three groups, covering low, medium and high, it is hoped that the driving factors for each group of the level of potential demand will be revealed. This research is expected to contribute to Islamic finance businessmen in developing the Islamic finance business and also to the monetary authorities in making policies for the development of Islamic banking. The decision to choose the province of West Sumatra, Indonesia as the research location was based on the consideration that this area is quite prospective for the development of Islamic banks because it is dominated by Muslims and historically the behavior of the people in the research area has shaped the existence of socio-cultural and religious acculturation in various aspects. From a policy perspective, this research is expected to provide a distinctive study of some previous studies which rely more on predictions of potential demand based on published secondary data. In addition, an important question that is often asked by observers of the Islamic finance industry, such as "Is the potential demand for Islamic banking still driven by Islamic religiosity, after so many years of Islamic banking development, of course, this will be answered with this finding.

2. Literature review and hypotheses development
Mapping of community behavior is very necessary for predicting the potential demand for Islamic banks in a particular area or community. The pattern of people's behavior in deciding to choose financial products and services is constantly changing along with changes in economic conditions, socio-demography, socio-culture, development of rational motivation and emotional motivation from within the individual itself. The results of this mapping of consumer behavior then become the determinant of the achievement of potential demand for Islamic banks, which then becomes the basis for the development of Islamic banks in a region.

In the basic concept of marketing, consumer behavior refers to the behavior performed by individuals, groups or organizations related to the decision-making process, such as searching for, buying, using, evaluating and determining the products and services they expect to satisfy their needs (Engel *et al.*, 1995; Schiffman *et al.*, 2010). In the context of Islamic consumers' behavior, this behavior conforms to the concept of Islamic religiosity, which has an important position in its discussion and becomes the basis for distinguishing it from the concept of consumer behavior from a conventional perspective. Islam should not only be considered in the context of revelation and doctrinal religions only, but Islam is the way of life and Islam is used as a view of life (Choudhury, 2019; Tibi, 2020).

There are rational motives and emotional motives in consuming goods and services (Kotler and Armstrong, 2008; Schiffman *et al.*, 2010), where Islamic religiosity is closely related to emotional motives and integrated with the purchasing decision-making process. In marketing research, a religious commitment which is generally known as "religiosity" is conceptualized as a level where a person implements their religious values and religious beliefs in their daily life (Worthington *et al.*, 2003). Religiosity is believed to be an integrated part of Muslim consumer behavior in adopting IB services. Agarwala, Mishra and Singh (2019) found that religious rituals, religious beliefs, religious values and also religious communities as antecedents that encourage the differences in consumer behavior. Individuals who are intrinsically motivated toward religion tend to integrate religious values into their lives because religion is their main goal in their lives. Fundamentally, Islam believes in the prohibition of usury, *Gharar* and *Maysir*, and the Muslim belief in fundamental matters like this leads them to practice it in transactions. They will carry out economic activities according to Islamic values and choose financial institutions that do not conflict with Islamic values.

In line with the behavior of individuals who constantly interact with their environment such as cultural, social, personal and psychological factors (Kotler and Armstrong, 2008; Lamb *et al.*, 2011), the behavior of Muslim consumers also changes over time. Kotler and Armstrong (2008) and Schiffman *et al.* (2010) have provided a well-established theoretical concept that factors covering social (such as referred groups, family and social status), cultural (consist of culture, subculture and social class), psychological (attitude, perception, motivation and beliefs) and also personal considerations (consist of age and stage of a life cycle, occupation and economic environment, lifestyle, personality and self-concept) are what influence the consumer behavior. This theoretical concept has been widely used by scholars to predict buying decisions process in various areas of research, including in the area of Islamic banking. A qualitative study by (Karoui and Khemakhem, 2019) confirmed that halal consumption is not only related to religious affiliations but also the product of numerous cultural, social and psychological factors. As a form of expansion of the basic theory, some researchers have extended some of the factors mentioned above as predictors in estimating consumer buying behavior toward IB services (Awan and Azhar, 2014; Charag *et al.*, 2020), although it is still rare to apply these factors simultaneously in the estimation model.

Cultural, social, personal and psychological factors are flexible dimensions in consumer behavior theory that can explain consumer behavior in an Islamic perspective, with some extent of measurement indicators. This expansion is based on several Islamic thoughts in the field of Islamic consumers' behavior which concluded that there is no separation in religion and Muamalah in Islam. Islam is a piece of personal life as well as social life, and Islam can be found anywhere like in politics, economy, culture, society and others (Karoui and Khemakhem, 2019). The concept of socio-cultural acculturation with Islamic values is a unification of functions which then become the values that regulate people's lives, including in financial transactions, which can form a community identity. (Rahman, 2010) has concluded that belief starts from the family, where every Muslim is trained by parents to know clear boundaries in Islam that separates what God allows, and what is forbidden. Kustin (2015) has also concluded that the challenges of developing Islamic financial institutions in Indonesia are related to community culture and conflicting organizational culture as well as conflicting policy and regulatory frameworks. The encounter of culture and religion often gives rise to a new culture in the form of local culture, and this often happens to people who are predominantly Muslim and live in neighborhoods with the same beliefs. (Kirkpatrick, 2005) has emphasized that religion as psychological attachment is a powerful emotional relation to everything, and a customer's decision in selecting a bank is highly linked with his psychological state of mind. Karoui and Khemakhem (2019) emphasized that

halal consumption is not only related to religious affiliation but also the product of various factors such as social, cultural and psychological.

The relationship between social influence, Islamic religiosity or religious obligation with the decision to adopt IB services can be traced from some previous studies (Amin *et al.*, 2011; Awan and Azhar, 2014; Charag *et al.*, 2020). Other studies also revealed that Islamic religiosity and social influence are two of the most important reasons why people adopt Islamic banking (Lajuni *et al.*, 2017; Mohanachandran and Normala, 2019; Sudarsono *et al.*, 2021); culture is one of the determinants on the decision to adopt Islamic banking services (Aziz and Afaq, 2018). The opposite finding adds to the diversity of the relationship between socio-cultural and demand for Islamic Banking, as (Obeid and Kaabachi, 2016) revealed that social factors do not affect the customers' decisions to use banking services if there is a lack of socialization and culture has no significant effect on a consumer's attitude toward the adoption of Islamic banking (Charag *et al.*, 2020).

In line with the socialization of Islamic banking entities in the community, emotional motives are revealed as an important reason why a Muslim decides to adopt an IB. This emotional motive refers to psychological factors and personal considerations of Muslim customers within the framework of Islamic religiosity. Some previous empirical findings revealed the importance of psychological aspects and personal decisions in deciding to adopt Islamic banking, especially in some countries with a Muslim majority, such as the existence of subjective norms and religious obligations (Lajuni *et al.*, 2017; Bananuka *et al.*, 2019; Maryam *et al.*, 2019), behavioral beliefs (Aziz and Afaq, 2018) and religious understanding (Mahdzan *et al.*, 2017; Mbawuni and Nimako, 2017; Hassan *et al.*, 2020). The fact showed that the stronger the understanding of individual religion, the greater a person's intention to use IB services (Janah *et al.*, 2020). In countries with Muslim minorities, utilizing community psychological factors is considered an effective way to take advantage of the potential demand for Islamic banking. Bananuka *et al.* (2020) revealed that the best strategy that can be used by financial institutions in ensuring the level of adoption of Islamic banking is by creating awareness of the mode of operation of Islamic banking. In cases where a Muslim feels that the products and services of an IB have met their financial transaction needs, the choice of an IB service will become a necessity as a Muslim. Suhartanto *et al.* (2020) also further emphasized that customer loyalty to Islamic banks in Indonesia is driven more by emotional engagement and religiosity than the quality of service they receive. If people believe that IBs will not finance activities that are contrary to their religion and beliefs, then people will decide to request services from IBs.

Empirically, some factors of personal considerations are revealed as personal reasons are the most diverse considerations in the reasons for choosing an IB, such as age and recycle stage, occupation, economic circumstances, lifestyle, personality and self-concept are some important indicators. The competitiveness factors were identified as personal considerations in adopting IB services, such as compatibility, consumer knowledge, risk perception and customer satisfaction (Mahdzan *et al.*, 2017; Mariadas and Murthy, 2017; Mbawuni and Nimako, 2017), constructs of service quality and also the accessibility of the IBs (Hamzah *et al.*, 2015), perceived advantage (Mahdzan *et al.*, 2017; Mbawuni and Nimako, 2017), perceived usefulness and risk (Thaker *et al.*, 2019), customer awareness (Ali and Puah, 2017), and Islamic lifestyle have a positive effect on intentions to use them (Kaabachi and Obeid, 2016; Janah *et al.*, 2020).

Based on the understanding of the literature of Islamic religiosity, the diversity of previous studies on the relationship between socio-cultural, psychological and personal factors with the potential demand for IB services, the following hypotheses were developed:

H0. None of the variables of Islamic consumers' behavior covering social, cultural, psychological and personal significantly affect the potential demand for Islamic banking.

Ha. There is at least one dimension of Islamic consumers' behavior covering social, cultural, psychological and personal factors which significantly influences the potential demand for Islamic banking.

3. Methods

3.1 Data

The research was conducted in 2019 in 18 regions in West Sumatera, Indonesia for 1,818 respondents. The population in this study was individual customers who have active accounts at conventional banks and also in Islamic banks. Data were collected by using the questionnaire with multistage sampling to ensure the recruitment of respondents according to the research needs. In the beginning, the sampling area was applied purposively by selecting 18 regions in the province of West Sumatra, Indonesia. The socio-demographic characteristics of this province are in line with research needs because this province is dominated by Muslims with socio-cultural elements that are highly integrated with Islamic thought. To increase precision, simplification of the sampling area is carried out by selecting a sub-district area located in the central business district with the argument that this area has good access to IB facilities. Due to the absence of formal data on the number of customers who have accounts with IBs and conventional banks simultaneously, the next sampling technique applied is purposive sampling. The purposive sampling method aims to dig deeper into the information and to find the best information directly (Uma and Roger, 2003). The number of samples is determined by referring to the criteria (Rao, 2012) where the quota of respondents is taken at least 97 respondents for each selected sub-district (significance level of 5% and maximum margin of error 10%). Questionnaires were administered to respondents with assistance from surveyors, and 1818 were declared to be feasible from 1850 distributed questionnaires, the response rate is 98.27%. This number is more than 75% of the total and this is declared to be statistically appropriate for population generalization (Stevens, 2012).

Based on Table 1, it can be seen that 50.83% of respondents were female and the age range of respondents was dominated by people of productive age 41–50 years (37.02%) and also 31–40 years (30.91%). Furthermore, it can be seen that most of the respondents were married (78.88%) and dominated by the group with an income range of 2.000.001–4.000.000 per month (52.70%). The majority of the respondents were educated people, with 32.73% of them graduating from a higher education degree, as a bachelor. The respondents were mostly entrepreneurs (25.25%), followed by civil servants (19.91%) and professionals (16.72%).

3.2 Variables and measurements

The dependent variable in this research is the potential demand for Islamic banking with four predictors of variables covering social, cultural, psychological and personal factors. Even though these four variables implemented in the estimation model are popular determinants in consumer behavior theory (Kotler and Armstrong, 2008; Schiffman *et al.*, 2010), the measurement indicators for each variable were developed within the framework of Islamic religiosity. The decision to extend the basic variable of consumer behavior is based on the understanding that the concept of Islamic religiosity is integrated with cultural, social, psychological and personal decisions in adopting Islamic banking (Worthington *et al.*, 2003; Rahman, 2010; Agarwala *et al.*, 2019; Karoui and Khemakhem, 2019; Puteri, 2020).

For the variable of social, the extension of the research instrument refers to some previous empirical findings of the relationship between social influence and intention to use Islamic banking (Amin *et al.*, 2011; Bananuka *et al.*, 2019; Mohanachandran and Normala, 2019;

Characteristic	Description	Frequency	(%)
Gender	Male	894	49.17
	Female	924	50.83
Age (Years)	<20	27	1.49
	20–30	395	21.73
	31–40	562	30.91
	41–50	673	37.02
	>50	162	8.91
Marital status	Married	1,434	78.88
	Single	384	21.12
Education level duration	Junior High School	89	4.90
	Senior High School	784	43.12
	Diploma	245	13.48
	Bachelor degree	595	32.73
	Master/Doctoral	105	5.78
Income (IDR per month)	≤ 2.000.000	125	6.88
	2.000.001–4.000.000	958	52.70
	4.000.001–6.000.000	447	24.59
	6.000.001–8.000.000	176	9.68
	8.000.001–10.000.000	95	5.23
	>10.000.000	16	0.88
Employment status	Professional	304	16.72
	Entrepreneur	459	25.25
	Employee	193	10.62
	Civil servant	362	19.91
	Student	206	11.33
	Pensioner	82	4.51
	Housewife	121	6.66
	Others	91	5.01

Table 1.
Demographic
information of
respondents

Charag *et al.*, 2020). The expansion of measurement indicators for cultural aspects was developed from the initial concept of consumer behavior and also relevant previous empirical studies (Amin *et al.*, 2011; Charag *et al.*, 2020). Furthermore, the measurement instrument for the psychological aspect can be derived from the relevant previous empirical studies about the relationship between the psychological aspect and the intention to use Islamic banking (Aziz *et al.*, 2018; Bananuka *et al.*, 2019, 2020; Karoui and Khemakhem, 2019; Charag *et al.*, 2020). The instrument for personal aspect refers to the basic concept of consumers' behavior, the proposition about Islamic consumer behavior, and also the diversity of various previous empirical studies that have been widely used in elaborating the impact of personal considerations on the decision to adopt Islamic banking services (Kaabachi and Obeid, 2016; Thaker *et al.*, 2019; Janah *et al.*, 2020).

To measure variables in the model, respondents are asked for their opinions using a five-point scale, ranging from strongly disagree to strongly agree on questions about these indicators. To ensure that the reflective indicators that have been extended are suitable to be applied in the model, the data quality test is carried out completely by looking at the normality, validity and reliability of the instrument. Because of the decision to extend the measurement indicators of consumer behavior with Islamic values based on the propositions of previous studies, it is necessary to test the indicators of each developed variable. The instrument item validity test was conducted through a pilot test of 30 respondents in one of the sub-districts in the research area, to ensure that the instruments developed were in line with research needs and in line with core theory.

3.3 Analytical method

To predict the potential demand for Islamic banking, the analytical method that is suitable to be implemented is multinomial logistic regression. The response variable in this study is the potential demand for IBs which is divided into three categories, covering high, medium and low, with codes 3, 2 and 1. The low category is used as a reference category which is then used as a comparison for the other two categories. While the independent variables used are variables of social, cultural, psychological and personal, which are important predictors in the study of Islamic consumers' behavior. The multinomial logistic regression model equation for this estimation model can be written as follows:

$$g_z\ (x) = \beta_{j0} + \beta_{j1}\ x_1 + \beta_{j2}\ x_2 + \beta_{j3}\ x_3 + \beta_{j4}\ x_4$$

$$\text{Logit}(Y = 2) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$$

$$\text{Logit}(Y = 3) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$$

Description: X_1 is social, X_2 is culture, X_3 is psychology, X_4 is personal, β_{ji} parameter estimation and $g_z(x)$ is the dependent variable with polychotomous categories including high potential, medium potential and low potential. $Y = 2$ is medium potential demand and $Y = 3$ is high potential demand.

Testing the model to predict the significance of the independent variables on the response variable was carried out through a simultaneous test and a partial test with likelihood ratio tests. The output of the fitting information model and the estimation coefficients are further analyzed whether they meet the feasibility statistically, which is then used to further estimate the response of various predictor variables to the categorization of the potential demand for Islamic banking.

4. Result and discussion

The results of the mapping of 1,818 respondents in West Sumatra Province, Indonesia, as an area with a Muslim majority, show that there were 44.66% of respondents were in high potential, 17.88% of respondents were in medium potential and 37.46% of others were in low potential demand for Islamic banking. To ensure the degree of consistency among respondents' answers, a reliability test was conducted, as in Table 2. The study used Cronbach's alpha test to assess the reliability of the scales implemented in this study. Based on the results, Cronbach's alpha for items which were social (0.856), cultural (0.879), psychological (0.896) and personal (0.908) attained Cronbach's alpha exceeding the minimum value of 0.6 (Hair *et al.*, 1998). Thus, the constructs measured were statistically reliable and acceptable for further regression analysis.

The estimation results using multinomial logistic regression, which aims to show the estimated influence of variables of Islamic consumers' behavior such as social, cultural, psychological and personal on potential demand groupings are presented in the following tables. The fitting information model shown in Table 3 implies that the model used to predict the potential demand for Islamic banking is categorized as very good. Simultaneous test results show that testing the model with likelihood ratio tests is significant with a Chi-Square value of 89,857 (*p*-value = 0.000).

Based on the output of the fitting information model in Table 3, it can be concluded that this model fulfills the feasibility statistically. Furthermore, Table 4 shows the output of likelihood ratio tests which contains the results of partial tests on all independent variables in the model. These results become the basis for answering the hypothesis testing for this model, namely H0 = None of the variables of Islamic consumers' behavior covering social, cultural, psychological and personal that significantly affect the potential demand for Islamic

Factor	Code	Item description	Factor loadings	Cronbach's alpha
Social	Soc1	Understanding Islamic values and the existence of religious learning in the family	0.733	0.856
	Soc2	Influence of religious communities	0.748	
	Soc3	References and motivations from religious friends or co-workers	0.710	
Cultural	Cul1	Upholding Islamic values as a cultured person	0.766	0.879
	Cul2	The belief that Islamic banks bring prosperity to society	0.609	
	Cul3	The belief that Islamic banks are fairer than other financial institutions	0.830	
Psychological	Psy1	The belief that Islamic banks are free from forbidden things, such as usury, *Gharar* and *Maysir*	0.817	0.896
	Psy2	Moving to an Islamic bank is a process to become a more obedient Muslim	0.795	
	Psy3	The learning process to become someone more religious	0.791	
	Psy4	The relevance of Islamic bank products and services to consumer needs	0.685	
Personal	Per1	A lifestyle based on Islamic principles	0.793	0.908
	Per2	Islamic banking products, and services that reflect personality as a Muslim	0.823	
	Per3	Age factor that makes a person more religious	0.706	
	Per4	Product and services of Islamic banks according to economic circumstances	0.796	
	Per5	Islamic bank required for work reasons such as payment of salaries	0.738	

Table 2.
Factor analysis and reliability test

Model	Model fitting criteria −2 Log Likelihood	Likelihood ratio tests Chi-square	df	Sig
Intercept only	3339.415			
Final	3249.558	89.857	8	0.000
Source(s): Primary Data Processed, 2019				

Table 3.
Model fitting information

Effect	Model fitting criteria −2 Log Likelihood of reduced model	Likelihood ratio tests Chi-square	df	Sig
Intercept	3313.632	64.074	2	0.000
Social	3261.267	11.709	2	0.003
Culture	3252.322	2.764	2	0.251
Psychology	3262.079	12.521	2	0.002
Personal	3258.468	8.910	2	0.012
Source(s): Primary Data Processed, 2019				

Table 4.
Likelihood ratio tests

banking and Ha = There is at least one dimension of Islamic consumers' behavior covering social, cultural, psychological and personal which significantly influences the potential demand for Islamic banking.

Table 4 provides answers to these hypotheses. It can be seen that there are three significant independent variables in the model, such as variables of social, psychology and personal with Chi-Square are 11,709 (*p*-value = 0.003), 12,521 (*p*-value = 0.002) and 8,910 (*p*-value = 0.002). Thus, it can be concluded that the level of potential demand for Islamic banking is influenced by social, psychological and personal aspects. To formulate a functional equation using multinomial logistic regression, Table 5 shows the results of data processing containing the estimated parameter values. For analysis purposes, the respondent groups can be separated into two groups, namely medium potential demand, and high potential demand. The group of respondents with low potential demand is a category that is used as a reference category that can be used as a comparison.

Based on the results in Table 5, it can be concluded that H0 is rejected and Ha is accepted, which means that there is at least one independent variable in the model that significantly affects the potential demand for Islamic banking. Social and personal aspects are the driving factors for the high potential demand for Islamic banking. Social and psychological aspects are also driving factors for the medium potential demand for Islamic banking. The functional equations for the estimation model of multinomial logistics regression in this study are:

$$\text{Logit}(Y = 2) = -3.054 + 0.627X_1 + 0.413X_2 + 0.429X_3 + 0.156X_4$$

$$\text{Logit}(Y = 3) = -3.432 + 0.507X_1 - 0.022X_2 + 0.238X_3 + 0.465X_4$$

Note: X_1 is social, X_2 is cultural, X_3 psychology, X_4 is personal, $Y = 2$ is medium potential demand and $Y = 3$ is high potential demand.

The estimation results from the research model show that the potential demand is influenced by Islamic consumer behavior, especially by social, psychological and personal factors. The social aspect has a significant effect on the potential demand for Islamic banking, which means an increase in social influence can affect the possibility of people asking for Islamic banking. Increasing the factor of social causes the tendency of the community to be in the high potential group as an IB customer by 1,661 times than that of the community group in the low potential group. The psychological element increases the tendency of the community to be in the medium demand potential group by 0.651 times than the community group in the low potential group. While the factor of personal affects the tendency of people to be in the high potential group as an IB Islamic bank customer by 1,592 times than that of the community group in the low potential group.

Level of potential demand		*B*	Sig	Exp (*B*)
Medium	Intercept	−3.054	0.000	
	Social	0.627	0.006	1.872
	Culture	0.413	0.141	1.512
	Psychology	0.429	0.027	0.651
	Personal	0.156	0.446	1.169
High	Intercept	−3.432	0.000	
	Social	0.507	0.004	1.661
	Culture	−0.022	0.919	0.978
	Psychology	0.238	0.117	1.268
	Personal	0.465	0.003	1.592

Table 5.
Estimation parameters **Source(s):** Primary Data Processed, 2019

5. Discussion

The potential demand for IBs reflects the size of the market segment that can be controlled and this information will determine the development strategy of IBs, such as decisions for network expansion and decisions for managing market segments. This research on the potential demand for Islamic banking should be more than just initial research to expand new market share but needs to be carried out regularly and continuously. That potential demand is strongly influenced by the behavior of communities, regulations and developments in market competition, which is constantly changing over time. Many things can affect the potential demand for IBs, where socio-demographic conditions play an important role in it. Indicators of Islamic consumer behavior such as socio-cultural factors, psychology of customers and personal considerations are the determinants of the level of potential demand for Islamic banking which is constantly being adjusted over time. Mapping of community behavior is a very important part in predicting the potential demand for Islamic banking, to get an overview of the factors driving changes in people's behavior in adopting IB. The findings of this study reveal that social, personal and psychological factors are the three driving factors for the potential demand for Islamic banking. These three factors are part of Islamic consumer behavior that affects the level of potential demand for Islamic banking in different magnitudes of effects. The factor of social is the main determinant of the community's decision to adopt IBs services, which is then followed by personal and psychological factors.

In more detail, the findings of this study have revealed some important implications. *First,* the potential demand for IBs is strongly influenced by social factors, where the increase in social indicators in people's behavior causes the tendency of people to be in the high potential group as customers of IBs by 1,661 times than in the low potential group. The increase in social aspects of consumer behavior also tends to increase in potential demand at a moderate level of 1,872 times compared to the low demand potential group. Referring to the theoretical concepts that have been described in the previous section, the social factors referred to in this finding refer to social indicators that are integrated with Islamic religiosity such as understanding the concept of Islamic law and religious education in the family, the influence of religious community and references from religious friends. The findings of this study have elaborated more detail the findings of previous research which identified the impact of social influence on the decision to adopt Islamic banking (Amin *et al.*, 2011; Bananuka *et al.*, 2019; Mohanachandran and Normala, 2019; Charag *et al.*, 2020), by revealing that Islamic understanding and religious education in the family are the main social indicators that are important in determining a person's decision to demand Islamic banking. Thus, it is implied that individuals who come from Muslim families who are obedient to the belief in every Islamic law are those with a high potential group to adopt IBs in fulfilling their financial transactions. In addition, the influence of the community and references from religious friends are also considerations that determine the potential demand for IBs. The theoretical concept that was expected by a Muslim expert (Rahman, 2010) in "The Art of Islamic Banking and Finance" is highly in line with this empirical study. The Islamic belief starts from the family, parents are the first reference for an individual to know what is permitted and what is forbidden in Islam, including what is forbidden in transactions.

Second, the potential demand for IBs is influenced by the personal factor, which refers to personal considerations of Islamic religiosity in deciding to adopt Islamic banking services. The increase in personal elements increases the tendency of the community to be in the high potential group as an IB customer by 1,592 times than that of the community group in the low potential group. Furthermore, elaboration of the many personal indicators in the research, it was found that the Islamic lifestyle was the main personal reason considered in determining the demand for the IB services. This lifestyle can be reflected in the form of a person's pattern of life which is expressed in the person's activities, interests and opinions toward Islamic

banking. People who come from different cultures, social classes and occupations certainly have different lifestyles and have different personal considerations in deciding to choose an IB. The findings of this study have enriched the empirical findings of previous studies that elaborated on various personal considerations that determine the demand for Islamic banking, especially the study of (Kaabachi and Obeid, 2016; Janah *et al.*, 2020) which investigated the importance of a Muslim's lifestyle as a determinant of their decision to request Islamic banking services.

Third, the potential demand for Islamic banking is related to psychological factors that are attached to a person's character. The increase in psychological factors causes an increasing tendency for people to be in the medium demand potential group by 0.027 times compared to the low potential group. This finding confirms that the belief to be an obedient Muslim is a psychological aspect that distinguishes the potential level of public demand for IB services. This finding has answered the doubts of most Islamic banking experts who are still questioning, "whether, after so many years of Islamic banking development, psychological factors are still the driving factor for people switching to Islamic banks?" It has been proven that this study has elaborated on previous findings on the importance of the understanding of individual religion in deciding to adopt IB services (Mahdzan *et al.*, 2017; Mbawuni and Nimako, 2017; Hassan *et al.*, 2020; Janah *et al.*, 2020). If understanding is an early stage before belief, then this study provides evidence that a Muslim will still ask for Islamic banking services for reasons of belief in Islamic values.

From a theoretical perspective, this study has contributed to the expansion of Islamic consumer behavior theory, by examining the driving factor for the level of potential demand for Islamic banking. Perceived advantages and various other personal reasons may be widely claimed as a general reason in deciding to adopt Islamic banking services, but this study proves that the understanding of Islamic banking and the belief to be an obedient Muslim are the main considerations in requesting Islamic banking services, in addition to form social and other personal decisions. From a policy perspective, this finding can be a consideration for IBs, that the expansion of the market share of IBs will be more appropriately directed to Muslim groups with indications of high adherence to Islamic values, those with Islamic lifestyles, and the Muslim community groups with Islamic understanding backgrounds and good religious education.

6. Conclusion

This study explores how important Islamic consumer behavior covering aspects of social, cultural, psychological and personal aspects can affect the level of potential demand for Islamic banking, which is classified into high, medium and low. This study is based on a survey of 1,818 respondents in 18 regions in West Sumatra, Indonesia in 2019, which are regions with a Muslim majority. Based on the survey, it can be concluded that the probability of high, medium or low potential demand for IBs is determined by Islamic consumers' behavior covering social, personal and psychological aspects. An increase in the factor of social and personal caused the tendency of the community to be in the high potential group as an IB customer by 1,661 times and 1,592 times compared to in the low potential group. Psychological aspects also increase the probability of the community being in the medium demand potential as a customer of IB.

This study has generated important implications for stakeholders in the development of IBs. The findings highlight the importance of Islamic religiosity in requesting IB services, especially for some aspects such as understanding of Islamic law and religious education in the family, Islamic lifestyle, and also religious beliefs. Obedient Muslim groups are the main segment for prospective IB customers because the decision to adopt Islamic banking begins with Islamic understanding and education obtained by an individual from their closest

environment, specifically their family. When a person grows up he/she will have rational considerations in behavior and decide what is best for him/her. Thus, personal considerations such as an Islamic lifestyle are the main personal reasons considered in deciding to demand IB. Furthermore, psychology will establish a person's character which makes them a unique person, and has an impact on individual choices in fulfilling the needs of banking services that are suitable for them. The psychological factor which then becomes dominant to shape one's financial transaction behavior is the belief to be an obedient Muslim. The increase in these three factors increased the potential for public demand for IBs.

The research of course has certain limitations. Although this study has attempted to elaborate on the consumers behavior variable with an Islamic religiosity perspective, theoretically this concept is not yet well established and still requires many applications in future research. Future studies are expected to enrich this analysis by examining more cases with communities that have different socio-demographic characteristics. This study also limits the exogenous variables used as predictors, which are some classic aspects of consumer behavior such as social, cultural, personal, psychological and ignores other exogenous variables, especially regulation. Regulation is another factor that has also been identified as being able to strengthen or weaken consumer behavior, especially for IBs which are growing with the support of government regulations.

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