

New Trend Switching Behavior of Bank Customers

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Received: January 12, 2021; Accepted: May 25, 2021; Published: July 4, 2021

Permalink/DOI: <http://dx.doi.org/10.17977/um002v13i12021p052>

Abstract

This study aims to identify the factors that influence switching behavior of customers in selecting Sharia banking services in Indonesia. This study employed a positivistic research paradigm to explain and predict the determinants of switching behavior of banking customers. In this study, a quantitative approach was adopted to examine the relationship between variables, determine variable causality, generalization, and prediction. The results of data analysis indicate that the important factors that determine switching behavior are religiosity, internet banking, and employee hospitality. Additionally, conditions that can hinder switching behavior are the fact that customers are increasingly rational. Lastly, the strategy that need to be developed by Islamic banking related to switching behavior is to maintain customer loyalty. The managerial implication of this research is that efforts are needed to increase understanding of Islamic banking to a higher level of education through a rational approach. Future research is expected to include price variables, number of offices, and other rational-based services to explore in more detail the determinants of switching behavior.

Keywords: Switching behavior, Banking customer, Sharia banks

JEL Classification: D91; G21; G41

INTRODUCTION

Understanding switching behavior is no less important than understanding consumer behavior. Switching behavior is vital for every company to understand in order to maintain current customers (Sun et al., 2017; Wang et al., 2019). In a comprehensive sense, switching behavior is a process whereby consumers leave their relationship with the current product service provider and replace it with a competitor's product partially or completely for a certain period of time (Jung et al., 2017; Hazen et al., 2017). There are many reasons why consumers engage in switching behavior, including price considerations, core service failures, competitions, ethical issues, and forced switching (Chang et al., 2017). Switching behavior greatly affects the company, as it causes decrease in revenue or company profits (Shin & Managi, 2017).

Switching behavior also occurs in the banking industry, where customers switch from one bank to another for various reasons. There are several studies related to switching behavior that occurs in the banking industry (Arshad et al., 2016; Vyas & Raitani, 2014; Mavri & Ioannou, 2008). In detail, Mavri and Ioannou (2008) revealed that the quality of banking products offered and services in

combination with bank brand names had a positive effect in reducing switching behavior, while demographic characteristics, such as gender and level of education had a limited impact. In other words, the quality of banking products and services is customers' consideration to make switching behavior.

Other considerations that make banking customers perform switching behavior are price, reputation, and distance. A preliminary study by Clemes et al. (2010) studied on banking industry in China found that product price, brand image, service quality, effective advertising and distance had an impact on switching behavior. Additionally, the study documented that young and high-income groups are more likely to switch banks. Similar findings are shown in research conducted by Vyas and Raitani (2008) in India that price, reputation, responses to service failures, customer satisfaction, service quality, service products, competitions, and customer commitment have a significant effect on switching behavior.

As in consumer behavior in buying products, switching behavior in banking is also influenced by social, cultural, personal, and psychological factors (Vyas & Raitani, 2008). Some scholars believe that ease and technology ultimately affect switching behavior. Altwijry and Abduh (2013) maintain that one of the biggest determinants of switching behavior of prospective customers of sharia banking is internet banking services. Ayyub et al. (2019) confirmed that the convenience of technology is the main factor influencing the behavioral intentions of Islamic and conventional banking customers in Pakistan.

Additionally, Karim and Dani (2020) studied to switching behavior from the conventional to Islamic bank concluded that the factor of religiosity affects the behavior of switching banks. Latif et al. (2019) stated that religious motives can certainly determine the intention to use Islamic banking. Similarly, Farhat et al. (2019) indicated the important role of Sharia compliance with behavioral intentions. Shome et al. (2018) demonstrated that the sharia compliance factor is also a determinant of a customer in choosing an Islamic bank in the UAE.

The increasing awareness of the Indonesian people, especially in Malang of East Java, in meeting their financial needs: to do saving, financing and conducting other transactions through Sharia banks is an intriguing subject to investigate. This awareness is caused, among others, by the issuance of the Fatwa of the Indonesian Ulama Council Number 1 of 2004 which stipulates that the interest system in conventional banks is categorized as usury and therefore, unlawful.

Data from the Indonesian statistics of East Java Province (BPS, 2020) showed the number of sharia bank offices in East Java is 244 consisting of 194 sharia commercial bank offices and 50 Sharia Rural Bank offices. Meanwhile, the number of conventional Bank offices accumulated with Conventional Rural Pre-credit Banks is 4,710. The number of Sharia Banks is insufficient based on the distribution of offices operating in East Java. As for Malang in 2016, there were 133 Conventional Commercial Banks, 20 Conventional Rural Banks, 17 Sharia Commercial Banks and three Sharia Rural Banks. The increase in the number of is illustrated in Figure 1.

In its development, sharia banks are not only used by Muslim but also non-Muslim. Several Islamic banks have non-Muslim customers. This demonstrates that, in fact, sharia banks are not only based on religious or ideological reasons, but there are also other factors such as economy, location and services that also affect

public interaction with them. People have certain considerations that influence their decisions in selecting their sharia banks.

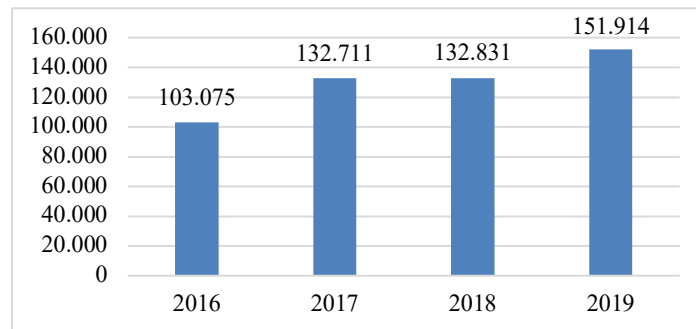


Figure 1. Number of Financing Accounts at Sharia Banks
Source: Indonesian Financial Services Authority (2020)

This study examines factors that influence customers to switch behavior in choosing Islamic banking services in Malang of Indonesia. From the results of data analysis, it is expected that the determining factors in choosing Sharia banking services will be identified, so that they can be used as a basis for making marketing policies and strategies. Thus, it will bring sharia bank management closer to its customers by creating a good image and providing satisfaction, so as to build customer loyalty. In addition, the results of this study are expected to contribute to the development of Islamic banks, so that Islamic banks have sound judgment to design strategies and policies to be more market driven.

METHOD

This study uses a positivistic research paradigm to explain and predict the determinants of switching behavior of sharia banking customers. Furthermore, this study uses a quantitative approach. Partial Least Square is one of the analytical tools that is commonly used to develop predictive linear relationship causality models. The approach is to test the relationship between variables, determine variable causality, generalization, and prediction. The population of this research is students at several universities in Malang who are banking customers. The questionnaire was distributed through the Google form received 200 responses for further analysis. The hypotheses in this study was provided in the following.

- H1. Religiosity has a positive influence on the switching behavior of customers.
- H2: Internet banking has a negative effect on customer switching behavior.
- H3. Employee Hospitality has a negative effect on customer switching behavior.
- H4. Customer Satisfaction has a negative effect on customer switching behavior.

RESULTS AND DISCUSSION

The results of discriminant validation on the variables of religiosity, internet banking, employee hospitality and satisfaction with switching behavior are provided in Table 1. The value of the construct validity of the variable can also be determined from the value of the discriminant validity. Discriminant validity shows the correlation between cross loading latent variables and other latent variables. This is determined by the comparison of the square root of AVE with the correlations of other

variables. If the AVE square root construct is greater than the other variable constructs, then the construct is valid.

Table 1. Reliability and Validity of Convergent

Variables	Value	SD	Containing
Switching Behavior (combined reliability =1; AVE =1)	0.20	0.42	1
Religiosity (combined reliability = 0.870; AVE = 0.770)			
sya1	3.73	1.82	0.879
sya2	4.17	1.67	0.888
Internet banking (combinedreliability = 0.937; AVE = 0.833)			
eb1	4.59	1.61	0.908
eb2	4.74	1.60	0.938
eb3	4.57	1.48	0.902
Hospitality (combined reliability = 0.957; AVE = 0.917)			
ra1	4.76	1.51	0.957
ra2	4.69	1.62	0.968
Satisfaction (combined reliability = 0.915; AVE = 0.843)			
pu1	4.76	1.43	0.928
pu2	4.63	1.47	0.919

The square root values of AVE in Table 1 are displayed in diagonal rows. In detail, the variable construct is valid because the AVE square root of each latent variable construct is greater than the other latent variable constructs. Second, the religiosity variable has a positive correlation with switching behaviour, albeit non-significant. Third, the switching behavior variable has a significantly negative relationship with the internet banking variable ($r = -0.468$; $p < 0.01$); hospitality ($r = -0.548$; $p < 0.01$). and satisfaction ($r = -0.309$; $p < 0.01$). This relationship exhibits that when internet banking services is poor, switching behavior increases. Hospitality and satisfaction also show the opposite relationships. The lower the Hospitality and customer satisfaction, the more switching behavior will come about.

Table 2. The Discriminants Validity

Variables	1	2	3	4	5	6
1 SB	1.000					
2 R	-0.023	0.639**	0.878			
3 IB	-0.468**	0.350**	0.319*	0.913		
4 H	-0.548**	0.330**	0.325*	0.741**	0.958	
5 S	-0.309**	0.539**	0.467*	0.624**	0.703**	0.918

Note: SB= Switching Behavior; R= Religiosity; IB= Internet banking; H= Hospitality; S = Satisfaction; The square root of the extracted mean variance (AVEs) is shown on the diagonal ** $p < 0.01$ * $p < 0.05$

Table 2 illustrates the results of the model fit indicators. Model fit indicators include Average Path Coefficient (APC), Average R-Square (ARS), and Average Variance Inflation Factor (AVIF). Kock (2012) states that the three indicators of model fit are very important to determine model fit in Partial Least Square analysis. The results of the analysis in table 1 show that the three indicators meet the model

fit criteria. The APC and ARS values meet the model fit criteria if the probability values of the two fit model indicators are significant (Sholihin & Ratmono, 2013). While the AVIF value has also met the requirements, for values less than 5. The R^2 value is a test of the inner model. The results of the analysis show that the current research model is moderate because the R^2 value reaches 0.33-0.67. This model has met the specified criteria. R^2 is the coefficient of determination that shows the percentage of variance in exogenous constructs that can affect the variance of endogenous constructs (Sholihin & Ratmono, 2013). Higher value of R^2 indicates a good model; the coefficient of determination only exists for endogenous constructs.

Table 3. Structural Model Fit Indexes

Model Panel	R-Square				
	R2 to SB	R2 to IS	APC	ARS	AVIF
Direct Effect Models	0.347	-	0.252**	0.347**	2.192
Complete Models	0.366	0.489	0.216**	0.427**	2.154

Note: ** $p < 0.01$; * $p < 0.05$; AVIF is ideal when < 5

Table 3 shows the results of the PLS analysis. The direct effect test aims to examine the direct effect of 4 latent variables: religiosity, internet banking, Hospitality, and satisfaction on switching behavior. Conversely, the test of effect in this study includes all latent variables.

Table 4. Results of Analysis Using PLS

Variables	Path Coefficient and Value Probability		
	Direct Effects	Complete Models	Total Effects
Religiosity SB	0.160 (0.006)**	0.065 (0.175)	-
Internet Banking SB	-0.192 (0.033)*	-0.204* (0.025)	-
Hospitality SB	-0.540 (0.001)**	-0.514**(0.001)	-
Satisfaction SB	0.115 (0.148)	0.045 (0.342)	-
Religiosity AKU SWS	-	-	0.162**(0.006)
Internet Banking AKU SWS	-	-	-0.189*(0.030)
Hospitality AKU SWS	-	-	-0.505**(0.001)
Satisfaction AKU SWS	-	-	0.102 (0.181)

Note: * $p < 0.01$; ** $p < 0.05$

Results of the direct influence analysis illustrated that religiosity variable had a significant positive effect on switching behavior (coefficient = 0.160; $p < 0.01$). Increasing compliance with sharia values in banking products can augment switching behavior. The results of the direct effect analysis also confirm that internet banking facilities have a significant negative effect on switching behavior of banking customers (coefficient = -0.192; $p < 0.05$). This study is in line with the research of Shome et al. Rajaguru (2018) which demonstrates that customer expectations related to bank compliance with sharia principles can encourage them to use Islamic banks. Religious awareness is an important factor that influences the intention to use Islamic banks. Additionally, Ayyub et al. (2018) confirmed that religious attitudes, motives, and awareness fundamentally influence customers to use Islamic banks. These findings were also parallel with which conducted by Sabirzyanov (2016).

Internet banking services can minimize customers switching to other banks. Currently, internet banking services are a competitive advantage of banking and financial services. Inclusive information and technology systems in Indonesia make banking customers interested in adequate internet services. Results of the full model analysis also confirm that internet banking services have a significant negative effect on switching behavior (coefficient = - 0.204; $p < 0.05$). The better the internet banking service at the current banks (i.e., conventional banking), the less switching behaviour one can expect. This is an indication that internet banking service factor keeps customers loyal. A preliminary study by Altwijry and Abduh (2013) mentioned that the biggest determinants of switching behavior of prospective customers of sharia banking is internet banking services. Indeed, Ayyub et al., (2019) confirmed that the convenience of technology is the main factor influencing the behavioral intentions of Islamic and conventional banking customers.

In addition to the the third hypothesis, the hospitality variable has a significant negative effect on switching behavior (coefficient = -0.540; $p < 0.01$). An increased amiability decreases switching behavior. Banking institutions are in constant need to prioritize good service; one of which being cordial attitude. On the other hand, satisfaction variable has no effect on switching behavior (coefficient = 0.115; $p > 0.05$). Table 4 shows the full model test, which shows that Hospitality has a significant negative effect on switching behavior (coefficient = -0.514; $p < 0.01$). Service quality is an important factor that determines switching behaviour of customers in banking industry. An antecedent study by Clemes et al. (2010) stated that the quality of banking services has a significant positive effect on customer switching behavior. The results of this study also confirm that customers who have higher incomes have a greater potential for switching behavior. One feature of service quality refers to the friendly attitude of employees (Clemes et al., 2010). Hospitality is a determinant of switching behavior. In addition, Altwijry and Abduh (2013) explained that the greatest determinant of switching behavior of prospective Islamic bank customers is internet banking and bank frontliner Hospitality.

CONCLUSION

From results of the preliminary analysis, the following conclusions are drawn. First, the factor of religiosity has a positive effect on switching behavior. This means that higher level of religious understanding leads to higher switching behavior to Sharia banks. Second, this study found that internet banking factors have a negative effect on switching behavior, which implies that better internet banking features lead the lower the desire to switch to Sharia banks. Additionally, employee hospitality and customer satisfaction have a negative effect on switching behavior. This study provides managerial implication. Efforts are needed to increase understanding of Islamic economics in general and in particular Islamic banking in the community, to encourage people who are currently customers of conventional banks to switch to Sharia banking. Sharia banks must continue to improve digitalization, hospitality of its employees and quality of service, all of which are factors that shape customer satisfaction. Further research is expected to include cultural/ethnic variables, amount of profit sharing and age, and to expand the research area to explore more determinants of switching behavior.

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