

## **Prospect And Challenges Of Islamic Banks For Non Muslim Minority Customer In Indonesia**

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### **ABSTRACT**

**Objective** The purpose of this study is to explore and analyze the factors that will support or limit the introduction of Islamic retail banks in Muslim minority areas in Muslim-Majority countries such as Purbosari, Bengkulu, Indonesia. This study attempts to fill a gap in the empirical literature on the establishment of Islamic retail banks in Muslim minority areas. It recognizes upfront that Islamic banking offers an alternative banking system that is attractive to both Muslims and non-Muslims. **Design/methodology/approach** – The research adopts a mixed approach to address the prospects and challenges of establishing an Islamic Retail bank in Indonesia. **Findings** – The research finds that there are various prospects for an Islamic retail bank in Indonesia for Muslims and non-Muslims, including enabling legal, fiscal and regulatory framework, the financing of small and medium-sized enterprises and the issuance of sukuk (Islamic investment certificates). The research also finds that developing an Islamic retail bank in Indonesia faces various challenges. Some of these challenges are a lack of Shari'ah-compliant liquidity instruments and inter-bank deposits, a lack of knowledge and understanding of Shari'ah-compliant products, and the enforcement of Islamic contracts in court. **Originality/value** – This in-depth study appears to be comprehensive and will help in developing a solid foundation for establishing an Islamic retail bank in Indonesia

**Keywords:** Challenges, Indonesia, Prospects, Islamic retail banking, Muslim minority areas

## **INTRODUCTION**

Purbosari Village, a village located in Sumatra, Bengkulu Province, Indonesia, is a Non-Muslim minority country mixed with a mixed population of Javanese, Purwodadi, Srage and Boyolali. It has emerged as a major international business platform in this region of Indonesia, aided by the fact that its population of 60 million inhabitants has the highest adult literacy rate for all of Indonesia. Purbosari Village, West Seluma District, Seluma Regency has a population of approximately 60% non-Muslims, while the number of Muslims is approximately 1,904 people. Although the majority of Indonesia's population is Muslim, the development of sharia products is slow and has not yet developed as conventional banks in general have a strategic function as an intermission institution and provide services in payment traffic, but the characteristics of the two banks can influence prospective customers in determining their choice for the two banks. There is still a lot of understanding about Islamic banks only for Muslims. There needs to be an understanding to the general public that Islamic banks are banks based on Islamic law. Islamic banks can be used by all groups, not only Islam. All religions prohibit the use of riba because riba is considered something that can be destructive. In the Hindu scriptures, it is said that riba is included in the great sin. On the new covenant and covenant. The old holy book of Christianity also prohibits riba. Similar to conventional banks, Islamic banks also issue the same products such as savings, deposits, current accounts or services, but there are differences in characteristics, Islamic banks do not recognize riba and interest free banking (without interest), which are adjusted to the rules in Islam, unlike conventional banks that harm customers, Islamic banks are more honest and profitable together. With products and The existing character, Islamic banks also carry out promotions, to be known by the public, both Muslim and non-Muslim communities. The better the promotion, the easier it will be to get to know the advantages of Islamic banks, especially non-Muslim people so that they perceive that what Islamic banks do is better than conventional banks. Non-Muslim communities can make transactions in the form of savings, financing, and using services from Islamic banks, so it is necessary to expand to non-Muslim communities for the sake of the continuity and continued existence of Islamic banks themselves. So that to be able to develop a network of Islamic banking offices with the intention of capturing the Non-Muslim market, it is necessary to increase socialization and cultural approaches so that the understanding of the Non-Muslim community about Islamic Financial Institutions is in accordance with what it is, namely offering the concept of justice for anyone including Non-Muslims (Rahmatan lil alamiin), which based on Law Number 21 of 2008 which contains about Islamic banking does not prohibit the existence of non-Muslim communities.

who want to become customers of Islamic banks. The purpose of this study is to explore and analyze the factors that will support or limit the introduction of Islamic retail banks in non-Muslim majority Indonesia. The premise is that the establishment of a full Islamic retail bank in this non-Muslim area will meet the needs of Muslim and non-Muslim individuals, entrepreneurs and small and medium enterprises (SMEs), help meet the Sustainable Development Goals and provide better financial inclusion. ( Marfuah,2023)

## **LITERATURE REVIEW**

### **Consumer behaviour and Islamic banking patronizing behaviour**

Empirical research using different methodologies and approaches has been carried out in different parts of the world to examine the criteria influencing consumers in selecting their banks (Haron et al., 1994; Che and Mohd, 2003). Understanding how customers select banks is important as it assists banks in identifying the appropriate marketing strategies needed to attract and retain customers (Al-Mossawi, 2001). As Islamic banks are relatively new institutions compared to their conventional counterparts, customers' understanding and awareness, as well as their assessment and perception of the specificities of these banks, determine the extent of their adoption of the banks' products and services. Customers' positive perception towards Islamic banking is crucial because Islamic banks must compete with long-established conventional banks in a dual-banking system (Dusuki and Abdullah, 2007). ). Moreover, Islamic banks have the mission of contributing to socio-economic development through the delivery of financial services according to the principles and teachings of Islam. It is thus essential for them to study and understand customer behaviour, as well as their attitudes and perceptions, to successfully attract customers and gain larger market share. It must be stressed that customers' attitudes, perceptions and behaviour will have a significant impact on the survival of Islamic banks. Because of competition among retail banks and sophisticated customer demand, it has become essential for banks to determine the factors that are relevant to customers' choice and criteria for selecting or doing business with an Islamic bank. According to Saini et al.(2011), in today's competitive environment, it is imperative that bank managers develop the ability to determine the critical bank selection factors for the segments of the market they wish to attract and serve. Many studies have found that the selection criteria for doing business with Islamic banks differ among different types of consumers and vary between countries.

### **Prospects for Islamic banking and finance in Indonesia**

Islamic finance has been present in Indonesia since 1992, The prospect of the development of Islamic banking in the country itself can be broadly seen from 3 (three) things, (1) the population, the

Indonesian people who are not bene/the majority of Muslims so that this is a strong trigger for the development of Islamic banking in Indonesia, (2) Human Resources (HR), the development of banking in the country is also not spared from the human resources who manage the banking, There are many efforts to improve human resources, especially in the field of sharia economic law, of course this affects the productivity and professionalism of the Islamic bank itself, (3) The government, the existence of the government in supporting the development of the sharia economy, especially in the banking sector, is quite large. This is proven by the issuance of the Law. Number 21 of 2008 concerning Sharia Banking as an effort by the government to strengthen the contribution of Islamic financial institutions in strengthening national development. In addition, training activities were also carried out to discuss community poverty alleviation and Islamic banking is considered to be able to help in the program because it is considered to bring "benefits" to improve the economy and equitable distribution of community welfare.

### **Legal Basis**

It is important that the development of Islamic finance in Indonesia, including in Bengkulu, is based on Law No. 21 of 2008 concerning Islamic Banking. This law provides a clear legal framework and provides certainty for Islamic financial institutions in their operations, so that people feel safer to use Islamic financial products.

### **Increasing the Number of Islamic Financial Institutions**

Since 2015, Bengkulu has begun to see an increase in the number of Islamic financial institutions, including Islamic banks and microfinance institutions. People now have more options in choosing financial products that are in accordance with sharia principles. During this period, several new Islamic financial institutions were also established, which showed interest and commitment to developing the sector. Education and Socialization In 2018, the local government launched an intensive socialization program to educate the public about the importance of Islamic financial products. This program not only targets the general public, but also small and medium enterprises (SMEs) who urgently need financing to develop their businesses. With the increase in knowledge, people began to turn to Islamic financial institutions as an alternative that was more in line with religious values. Digitalization of Financial Services Entering 2020, Islamic financial institutions in Bengkulu began to adapt to technological advances through service digitization. Mobile applications and online platforms were launched to make it easier for the public to access Islamic financial products. This step is very important in attracting the attention of the younger generation who are more familiar with digital technology, while improving service efficiency. Government Policy Support Until 2023, support from the government, both at the provincial and central levels, continues. Policies that support the development of Islamic finance are increasingly strengthened,

including improving infrastructure and service accessibility. Cooperation between Islamic financial institutions and local governments is also getting closer, with a focus on inclusive and sustainable economic development.

## **METHOD, DATA, AND ANALYSIS**

To achieve the research objectives outlined above, this paper undertakes a combination of two research methods. First, it carries out a comprehensive review of the existing literature and theory. The theoretical framework of this study is constructed through the literature review. The main literature sources are journals, books, reports, theses and bank regulators' papers. It must be recognized upfront that there is a dearth of published literature on Islamic banking and finance in Indonesia. Second, it conducts an empirical study to extract the opinions and perceptions of respondents, both Muslims and non-Muslims, on patronizing an Islamic retail bank in Indonesia. Both quantitative and qualitative data analyses are used for this second part. An online survey is used in this context to obtain primary data from a selected group of banking customers. In addition, semi-structured interviews from a target sample of bankers, financiers, professionals, academics and Shari'ah scholars are used to substantiate and compare the survey findings.

### **Research objectives**

This study aims to achieve the following objectives:

- to unveil the potential market for an Islamic retail bank in Indonesia;
- to determine the extent of knowledge, level of awareness, and perception of Muslims and non-Muslims in Indonesia regarding Islamic banking and finance;
- to examine the local population's criteria for selecting a bank and for switching banks; and
- to determine the prospects and challenges in setting up an Islamic retail bank in Indonesia.

## **RESULT AND DISCUSSION**

Opportunities and Challenges of Sharia Banks in Indonesia Based on data from the Sharia Financial Services Authority (OJK), the Sharia Banking Industry in January 2022 consisted of 12 General Sharia Banks (BUS), 21 Sharia Unit Businesses (UUS), with the market share of Islamic banking as of August 2022 still at 7.03%. This achievement is still not as expected. The facts show that the market share is still much lower than the market share of conventional banking Market share is part of the market controlled by a company. The low market share of Islamic banking when compared to conventional banking shows that Islamic banking is not able to face the existing competition. In addition, the low market share is also an indication that the interest of the Indonesian people in using Islamic bank service products is still low. This problem arises due to business strategy or product offerings perbankan syariah masih kalah bersaing dengan perbankan konvensional, seperti akses



produk yang terbatas, harga less affordable products, poorer services, low quality of Human Resources (HR), and lack of awareness about Islamic finance among the general public Along with development, Islamic banking cannot be separated from the pros and cons of the public regarding the perception of the existence of Islamic banks There is still a lot of understanding about Islamic banks only for Muslims. There needs to be an understanding to the general public that Islamic banks are banks based on Islamic law So Islamic banks are very important to know the perception of non-Muslim communities towards the existence of Islamic banks Facts that show that the market share of Islamic banking is still low. Opportunities and Challenges of Sharia Banks in Purbosari Village, Bengkulu, Indonesia From the results of the study, it shows that the challenges of Islamic banking in Purbosari, West Seluma District, Seluma Regency are very large, the habit factor and lack of public knowledge about the products offered by Islamic banking are one of the obstacles in the development of Islamic banking in Purbosari, West Seluma District, Seluma Regency, in addition to the availability of operational support facilities transaction activity is still very lacking. In general, the tough challenge that must be solved by Islamic banking is how to become an established Islamic finance industry, namely professional, healthy and trusted Islamic banking. When classified, some of these challenges come from within, and some come from outside. (Marpuah 2023) Therefore, a strategy is needed so that Islamic banking becomes the main actor in the Islamic finance industry. The first strategy is to implement a spin-off policy. Spin-off refers to the division of legally permitted bank business operations into two or more different legal entities The second strategy is to improve the quality of Human Resources (HR). The sustainability of the Islamic banking industry is highly dependent on the fulfillment of human resources. Support from the world of education is needed to expand the field of economics and Islamic banking to produce quality human resources and overcome these problems The third strategy is to improve the quality of Islamic banking in terms of service to customers. Islamic banking services need to be improved to provide convenience for the public in using Islamic banking services and products. Improving Islamic banking services can be done by providing more ATMs, especially in areas far from cities, internet banking, and expanding the office network, with this it is hoped that the public can easily reach Islamic banking. The fourth strategy is to socialize and educate the Indonesian people, especially people in rural areas, about Islamic finance. The low interest of the public to save or use Islamic banking products and services is a result of the lack of public awareness or knowledge of Islamic finance. Socialization and education to the community in a maximum and continuous manner is needed to increase this knowledge.

## CONCLUSION

This study has tried to fill the gap in the empirical literature on the setting up of an Islamic retail bank in a Muslim-minority country. The research aims to identify the main prospects and challenges

in setting up an Islamic retail bank in Indonesia. The preliminary findings of the research have unveiled many prospects and challenges that will be put to test through an on-line survey questionnaire and semi-structured interviews. Preliminary findings suggest that an Islamic retail bank in Indonesia would be beneficial for Muslims and non-Muslims. An Islamic retail bank could serve the local retail market by providing savings and investment products, consumer financing, business funding and housing finance. The other opportunities are enabling legal, fiscal and regulatory framework, the financing of SMEs and the issuance of sukuk. However, it faces many issues and challenges. One main issue is that the new banking institution would have to work in a conventional environment and face Shari'ah issues related to monetary policy. Other issues and challenges relate to awareness and financial literacy, perception of customers and lack of Shari'ah-compliant liquidity instruments and interbank deposits, lack of knowledge and understanding of Shari'ah-compliant products and the enforcement of Islamic contracts in court. Besides, innovation in fintech will surely disrupt the way business is done, and the new Islamic banking institution would have to adapt accordingly.

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