

PRICING OF ISLAMIC BANKS AND ITS IMPACT ON BEHAVIORAL INTENTIONS

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Abstract

Individual price perception cannot reflect overall price satisfaction. Thus, conceptualizing price perception with a multidimensional construct is highly relevant to specify the contribution of specific price dimension to overall price satisfaction. Therefore, the study aims to construct a multi-dimensional price perception of Islamic banking and how it impacts on customer satisfaction and behavioral intentions. The study employed survey method through online questionnaire instrument and distributed to Islamic banking customers across regions in Indonesia. The findings of statistical analysis show that price quality ratio, relative price and price transparency play important role in customer satisfaction. Subsequently, price reliability, relative price and price-quality ratio have significant impact on favorable behavior. When the overall price perceptions are high, the customers' behavioral intentions are favorable and will strengthen their relationship with the Islamic banks. The study also confirms that customer satisfaction plays important role in customer loyalty. The satisfied customers create favorable intention to Islamic banks.

Key words: Islamic bank, price perception, behavioral intention, customer behavior, favorable behavior, loyalty.

A. BACKGROUND

Since 1971, Islamic banks have continued to grow in size and in number (Metawa & Almosawi, 1998) and successfully carved out a niche within the global financial system. It has done so by reconciling the financial and theological needs of an expanding Muslim population (Stanley, 2010). To respond to Muslim financial needs, there are now more than 180 Islamic banks and financial institutions operating in Asia, Africa, Europe and the USA with more than 8,000 branches with an estimated \$170 billion (Estiri et al., 2011).

The Islamic bank in Indonesia has been growing promisingly since the early 1990s. The industry has a humble beginning with a single Islamic bank in 1992. However, the growth and performance of the industry in the past two decades have been remarkable. Total assets of the Islamic banks grew from a mere 20 trillion rupiah in 2006 to 339 trillion rupiah at the end of November 2016, recording an impressive compounded growth of more than 40 percent per annum. In terms of the number of Islamic banks, there are 13 full-fledge