

CHAPTER I

INTRODUCTION

A. Research Background

The market share of Islamic banks originated from the idea of usury-free banking based on Islamic Financial principles. On the international level, the first Islamic bank was formed in 1963 in Egypt with the establishment of the Islamic Rural Bank in Cairo. Then, in 1975, Dubai Islamic Bank became the world's first private Islamic bank, founded by Muslim entrepreneurs from several countries. The concept of Islamic banking began to receive global attention when the Organisation of the Islamic Conference (OIC) held a conference in 1970 which resulted in the establishment of the Islamic Development Bank (IDB) in 1975, to support Sharia-based economic development.¹

In Indonesia, the idea of Islamic banking emerged in 1983 with the implementation of a profit-sharing policy in the national banking system, although the first Islamic bank was only present in 1991 with the establishment of Bank Muamalat Indonesia. The Asian financial crisis of 1998 further confirmed the superiority of Islamic banks in facing economic stability, as Bank Muamalat remained stable compared to many conventional banks that experienced difficulties at that time.

This progress continued with the establishment of Bank Syariah Mandiri in 1999, which was established by the government in response to the crisis.² The development of Islamic banking in Indonesia continues to show a positive trajectory, as reflected in the increasing number of Islamic Commercial Bank accounts from year to year, as shown in Figure 1.

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¹ Islamic Banking and Finance Definition: History and Example, Investopedia, accessed November 10, 2024, viewed <https://www.investopedia.com/terms/i/islamicbanking.asp>.

² Nofinawati, *Perkembangan Perbankan Syariah Di Indonesia*, accessed December 4, 2024, viewed <https://media.neliti.com/media/publications/93143-ID-perkembangan-perbankan-syariah-di-indone.pdf>. . 169

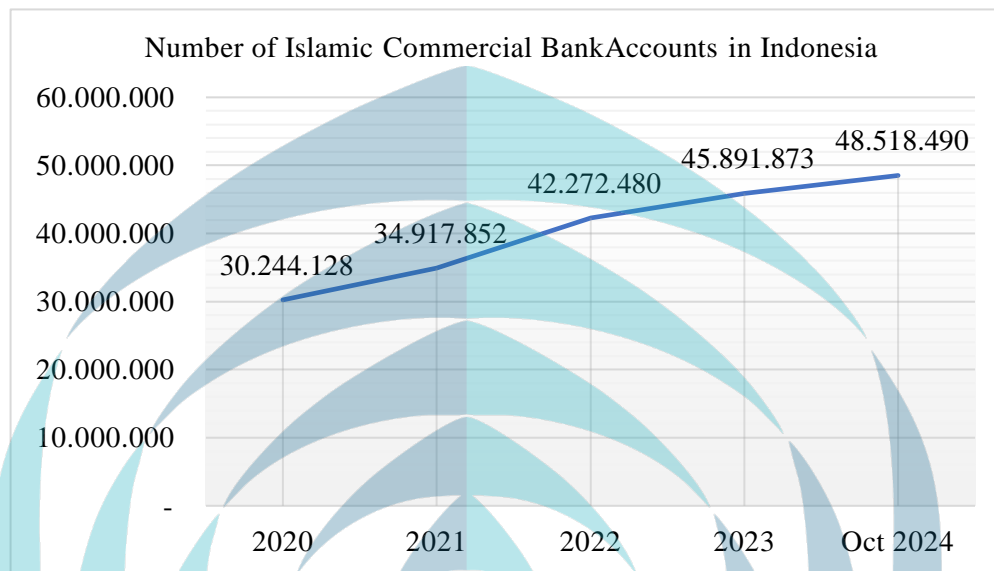


Figure 1 . Number of Islamic Commercial Bank Accounts in Indonesia
Source: *Islamic Banking Statistics October 2024*³

Despite the significant increase in the number of accounts, the overall market share of Islamic Commercial Banks is still relatively low compared to the total national banking market share. The percentage of market share held by the Islamic financial sector, including banking and other financial products compared to the total financial industry, measures how much Islamic financial institutions contribute to the total national financial industry. Over the past five years, the Islamic banking industry has shown consistent growth, as seen in Figure 2. The market share of Islamic Commercial Banks increased from 4.33% in 2020 to 5.09% in October 2024.

³ Otoritas Jasa Keuangan (OJK), Statistika Perbankan Syariah October 2024 , accessed December 2, 2024.

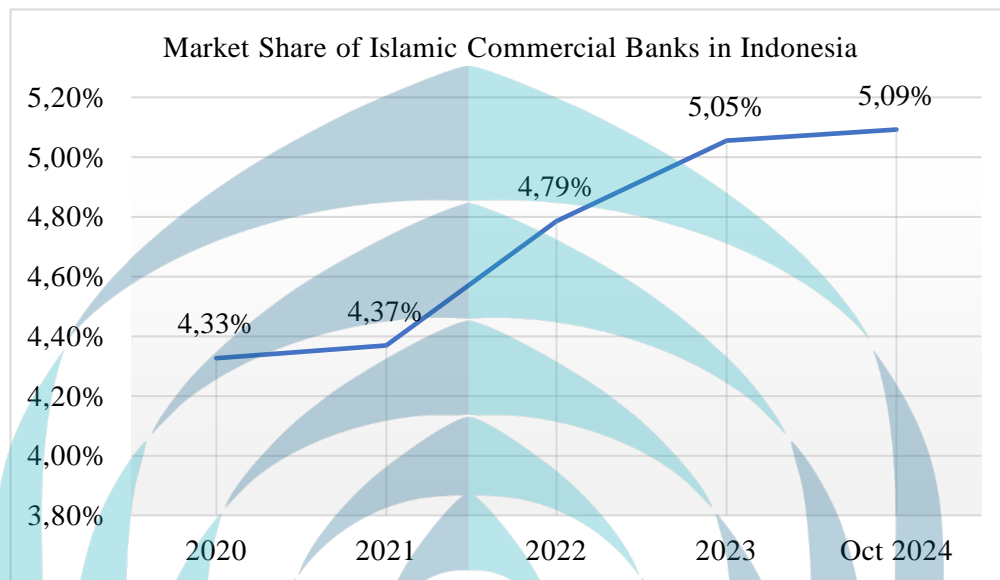


Figure 2 . Market Share of Islamic Commercial Banks in Indonesia
Source: *Islamic Banking Statistics October 2024*⁴

This trend indicates an increase in public interest in Islamic banking services, the challenge to expand the market reach and competitiveness of Islamic banking in Indonesia is still quite large.⁵ This increase in market share is also supported by various initiatives undertaken by the government, such as the merger of state-owned Islamic banks into Bank Syariah Indonesia (BSI), as well as various policies that support the Islamic economic ecosystem. However, despite its increasing growth, the assets of Islamic Commercial Banks (BUS) are still far below those of Conventional Commercial Banks (BUK) which dominate most of the banking market in Indonesia.

In October 2024, BUS assets only reached Rp. 619.81 trillion, far behind BUK assets which reached Rp. 12,172.03 trillion. Even in 2020, BUS assets were only in the range of Rp. 397.07 trillion, while BUK recorded Rp. 9,177.89 trillion as shown in Figure 3. Although there is significant growth in BUS assets from year to year, this rate has not been able to catch up with BUK's dominance. The low

⁴ Otoritas Jasa Keuangan (OJK), Statistika Perbankan Syariah October 2024 , accessed December 2, 2024.

⁵ Hanif Reyhan Ghifari, " BSI Catat Jumlah Nasabah Capai 19,2 Juta hingga September 2023," *tirto.id*, accessed October 31, 2024, viewed <https://tirto.id/bsi-catat-jumlah-nasabah-capai-192-juta-hingga-september-2023-gRJy>.

market share of Islamic banking is caused by various factors, some of which are that many people are still more familiar with conventional banking than Islamic banking.

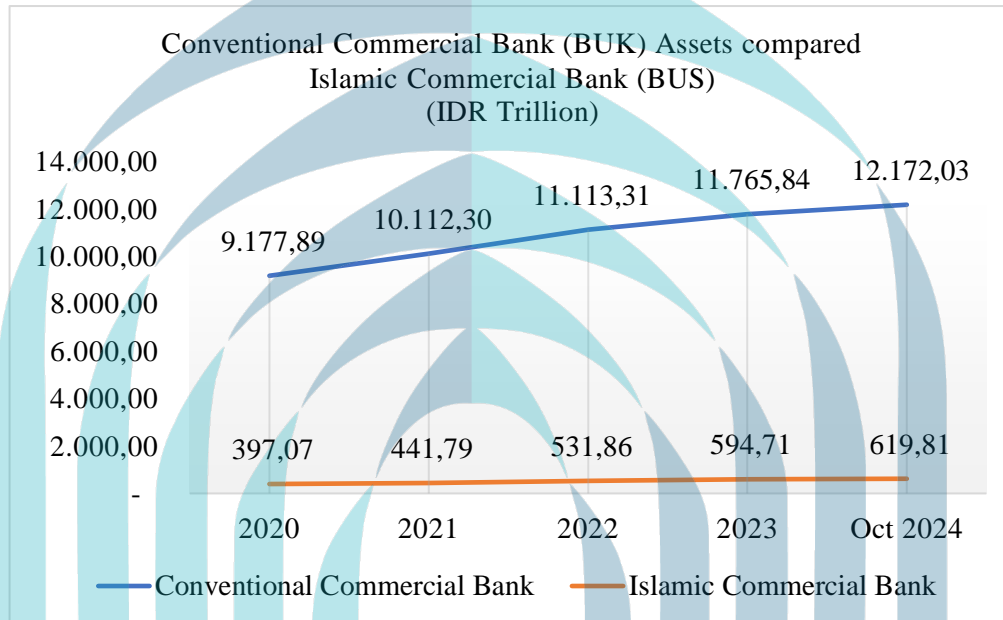


Figure 3 . Assets of Conventional Commercial Banks (BUK) compared to Islamic Commercial Banks (BUS) (Rp Trillion)

Source: Indonesian Banking Statistics and Islamic Banking Statistics October 2024⁶

Islamic banking offers a wider range of products and services and is better known to the public, although there is regulatory oversight for Islamic banking, conventional banking is well-established and has a stronger infrastructure.⁷ Therefore, with the support of change with stricter regulations and increased public awareness, the Islamic banking sector has the potential to continue growing and expanding its market share in the future. To support the development of Islamic economics and finance, information on the level of Islamic economic literacy

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⁶ Otoritas Jasa Keuangan (OJK), Statistika Perbankan Indonesia October 2024, accessed December 2, 2024.

⁷ antaranews.com, "BSI catat pertumbuhan jumlah nasabah 10,9 persen per September 2023," Antara News, accessed October 31, 2024, viewed on <https://www.antaranews.com/berita/3800787/bsi-catat-pertumbuhan-jumlah-nasabah-109-persen-per-september-2023>.

related to the knowledge, understanding, and behavior of the community is very important.

In the National Survey of Financial Literacy and Inclusion (SNLIK), which OJK conducted for the first time in collaboration with the Central Statistics Agency (BPS) on August 2, 2024, the Head of BPS, and the Chief Executive of the Financial Services Business Conduct Supervision, Education, and Consumer Protection of OJK presented the methodology and results of SNLIK, which showed the financial literacy and inclusion index of the Indonesian population as shown in Figure 4.

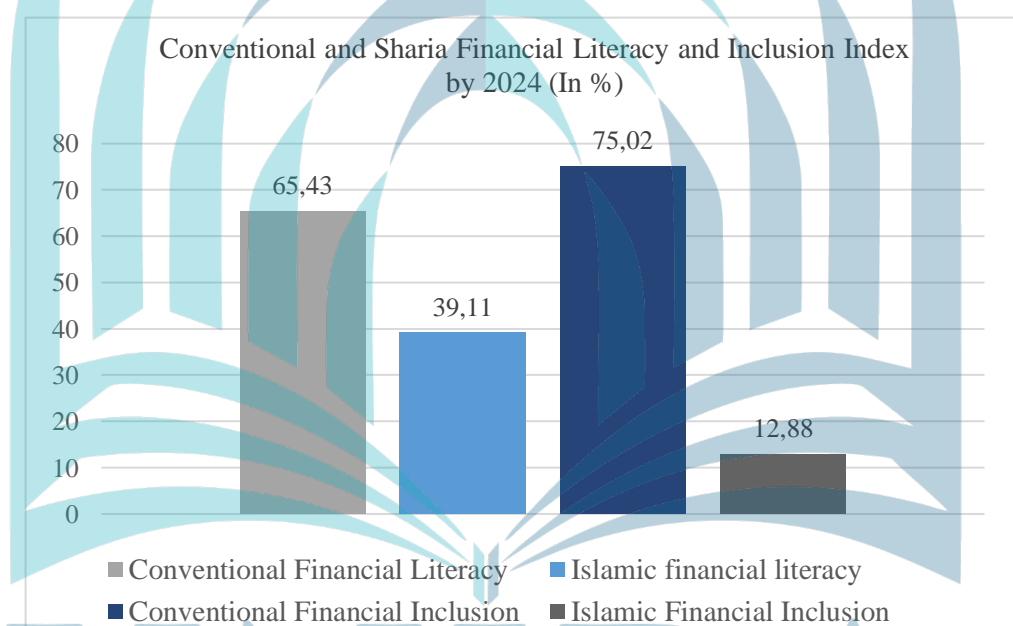


Figure 4 . Financial Literacy and Inclusion Index and Islamic Finance by 2024 (In %)

Source: Press Release of National Survey on Financial Literacy and Inclusion in 2024 ⁸

These results were also obtained from SNLIK in 2024, highlighting the increase was driven by the establishment of strong collaboration between OJK, relevant Ministries or institutions, the Financial Services Industry, and other parties in various aspects. However, a significant portion of Indonesians have used financial products and services without fully understanding them. Both in

⁸ Otoritas Jasa Keuangan (OJK), *SP OJK Dan BPS Umumkan Hasil Survei Nasional Literasi Dan Inklusi Keuangan Tahun 2024.*, accessed December 2, 2024.

conventional and Sharia finance, however, the level of Islamic financial literacy and inclusion has a lower percentage compared to the level of conventional financial literacy and inclusion, where the public's understanding of the concept of limited Sharia-based finance can be one of the factors that influence the limited use of Islamic financial services.

In the Global Islamic Finance Report 2016, Indonesia was ranked only 9th as the country with the largest Islamic financial assets in the world due to the lack of inclusion of Islamic finance, which is still below Malaysia which is ranked third. This comparison is caused by three things. Firstly, Malaysia has long established a policy of allocating state-owned enterprise and Hajj funds in Islamic banking, while Indonesia's managed funds are still focused on conventional banking.

Secondly, its products and services are diverse and extensive, ranging from financial services to capital markets, all managed with liberal governance or open to all communities, regardless of religious background. Whereas in Indonesia the Islamic financial industry is still very thick with affiliation to the Muslim community and a choice for certain people only. Third, Malaysia's adaptation to the use of technology that can open access to information regarding Islamic finance is evidenced in the number of Malaysian fintech companies that focus on sharia business which is also inseparable from the large role of the government regulating the sharia fintech.⁹

Financial literacy and inclusion are two aspects that must be balanced because activities to improve financial literacy can encourage the quality of financial decision-making and financial management in a better direction so that the public can wisely choose and utilize financial products and services through the availability of public access to financial institutions, products, and services that have been owned or provided by PUJK.¹⁰

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⁹ Kompas Cyber Media, *Inklusi Keuangan Syariah Masih Rendah Dibanding Malaysia, Apa Penyebabnya?*, KOMPAS.com, May 22, 2018.

¹⁰ Rika Anggraeni, *OJK Terbitkan POJK 3/2023, Dorong Literasi dan Inklusi Keuangan*, Bisnis.com, accessed December 24, 2024, viewed <https://finansial.bisnis.com/read/20230324/90/1640242/ojk-terbitkan-pojk-32023-dorong-literasi-dan-inklusi-keuangan>.

Frederica Widyasari Dewi, Member of the OJK Board of Commissioners for Consumer Education and Protection, explained how important it is for santri to understand Sharia finance and encouraged them to have a good level of financial literacy to obtain equal opportunities in accessing finance at formal financial services institutions. Because a good level of financial literacy can foster awareness about the vigilance against crimes that are rampant in society.¹¹

In recent years, the Indonesian government and the Financial Services Authority (OJK) have strengthened policies and strategies to improve Islamic financial literacy and inclusion. Through the updated National Strategy for Financial Literacy in Indonesia (SNLKI) in 2020, OJK targets to increase Islamic financial literacy in the hope that the public, especially the younger generation, will have a better understanding of Islamic financial products and services.

This is part of the government's efforts to expand public access to a financial system that complies with Sharia principles and to support the growth of an Islamic finance-based economy.¹² In addition, the Islamic Finance Roadmap 2020-2025 published by OJK emphasizes the importance of addressing the challenges of Islamic financial literacy and increasing the accessibility of financial services for people from all walks of life.¹³

This is reinforced by Presidential Regulation No. 114/2020 which established the National Committee for Sharia Economics and Finance (KNEKS), which has the task of coordinating strategic steps in the development of the Sharia economy and finance in Indonesia. These steps show that Islamic financial literacy and inclusion is not only a major concern of the financial sector but also a government priority to support the achievement of inclusive finance in Indonesia.¹⁴

¹¹ Otoritas Jasa Keuangan (OJK), *SP - OJK Dan Masyarakat Ekonomi Syariah Sinergi Tingkatkan Literasi Dan Inklusi Keuangan Para Santri*, accessed November 19, 2024.

¹² Otoritas Jasa Keuangan (OJK), *Strategi Nasional Literasi Keuangan Indonesia 2021-2025*, accessed November 19, 2024.

¹³ Otoritas Jasa Keuangan (OJK), *Roadmap Pengembangan Perbankan Syariah Indonesia 2020-2025*, accessed November 19, 2024.

¹⁴ PERPRES No. 114 of 2020, Database Peraturan | JDIH BPK, 3, accessed November 14, 2024, <http://peraturan.bpk.go.id/Details/154566/perpres-no-114-tahun-2020>.

Darussalam Gontor University is a campus that is committed to developing education based on Islamic values, including the study of Islamic economics and finance. As an Islamic university, UNIDA Gontor students have an educational background that supports Islamic financial literacy. This makes them relevant subjects in examining the factors that influence the decision to open an Islamic bank account, namely Islamic financial literacy and inclusion. Thus, this research is expected to explore insights into the readiness of the younger generation who have been exposed to Islamic values in accepting and choosing Islamic financial services.

Through this study, researchers want to know the effect of Islamic financial literacy and inclusion on the decision to open an Islamic bank account among students. This research is entitled **“The Determinants of Opening Account with Islamic Banks: Do Financial Literacy and Inclusion Matter?”**

B. Research Questions

Based on the background description above, the formulation of this research problem is: How does Islamic Financial Literacy and Inclusion influence the decision of UNIDA Gontor students to open an Islamic bank account?

C. Research Objectives

Based on the formulation of the problems mentioned, the objectives of this study are: To determine the effect of Islamic Financial Literacy and Inclusion on the decision of UNIDA Gontor students to open an Islamic bank account.

D. Research Limitations

To make the problems in this study more focused, the researcher provides limitations to this study. This study only involved UNIDA Gontor students, so the results may not be generalizable to the entire population of students in Indonesia or other universities. In addition, this research was conducted at one university located in a particular location, so this research only focuses on UNIDA Gontor female campus students.

E. Research Benefits

This research is expected to provide benefits for the development of a science academically and practically. The benefits of this research are:

1. Academic Benefit

This study is expected to contribute to the development of Islamic financial literacy and inclusion theory by exploring the factors that influence students' decisions to open Islamic bank accounts. The research findings are expected to be the basis for further research that is more in-depth about financial literacy and inclusion in the context of Islamic finance and can add to the literature that can spur future researchers to continue to develop research, especially in this field.

2. Practical Benefit

This research is expected to be able to contribute to efforts to increase public awareness, especially students, about the benefits and advantages of the Islamic banking system and be able to provide further insight into increasing Islamic financial literacy and inclusion in Indonesia, especially after being faced with the dominance of conventional banks in the banking industry which uses a usury system and can provide practical and easily accepted solutions to deal with economic problems that occur related to Islamic financial inclusion.