Understand Characteristics of Depositors to
Develop the Indonesian Islamic Banks

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Abstract
This paper studies characteristics of banking depositors referring to some survey literatures on Indonesian Islamic banking industry. Then, the output of such literatures is used to construct and propose an integrated program to develop the Indonesian Islamic banking industry. Particularly, the paper investigates the understanding of depositors with regard to Islamic banking institution, segmentation of depositors, depositors’ investment and liquidity behavior. Finally, an integrated program is composed of: (a) socializing the operations and benefits of Islamic banks; (b) educating the banking depositors and; (c) maintaining the loyalty of depositors.

1. Introduction
The Indonesian Islamic banking industry is very prospective shown by its robust performance in the last two decades. Until December 2009, for instance, there were six Islamic commercial banks (i.e., Bank Syariah Mandiri, Bank Muamalat Indonesia, Bank Syariah Mega Indonesia, BRI Syariah, Bukopin Syariah, and Panin Syariah) operated in the country with 711 branches and twenty five Islamic banking units/windows with 287 branches. Besides Islamic commercial banks and Islamic banking units, there were also a number of Islamic rural banks which increased significantly from 105 banks in 2006 to 138 banks in 2009. As a result, there were 1,136 branches of Islamic banks (Islamic commercial banks, Islamic banking units and Islamic rural banks) operated in the country.

Further, the industry has a healthy financial intermediary function and prudential banking operations. The Financing to Deposit Ratio (FDR) has been lying on 106.76% on average from December 2000 to December 2009 and the Non Performing Financing (NPF) stands between 2%-5% of the total financing. Other measures, like total assets, financing and deposits grow annually for more than 50%-60% on average. Lately, the total assets have reached Rp67.43 trillion with total financing of Rp47.14 trillion, very close with the total deposits of Rp53.16 trillion.

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But, despite such promising achievement, the market share of Islamic banking is unfortunately still less than 3% compared with the market share of conventional banking. It is really realized that in order to foster the development of Islamic banking industry, an integrated program of development has to be constructed referring to some factors such as characteristics of depositors, economic and business conditions, banking regulations and, competition with conventional banks.

This paper attempts to construct and propose an integrated program to develop the Indonesian Islamic banking industry based on literature surveys of the characteristics of banking depositors, one of the important factors above. Particularly, it employs the results of empirical surveys on Indonesian Islamic banking industry conducted by private companies, government institution, universities and individuals during the period of 2000-2009 (see figure 1).

Figure 1. Structure of the Analyses

The first empirical survey of the characteristics of depositors is the one capturing four provinces in Java Island, the most populated Island in the country. This is chosen considering that most of Islamic banks operate and locate in Java Island, hence, understanding the behavior of depositors in this Island is very important. The next survey being recruited is the one surveying certain strategic provinces in Sumatera and Kalimantan Islands, the second and third most populated Islands in Indonesia. Besides examining empirical surveys on those three big and important Islands, the paper further investigates two most recent surveys on Islamic banking industry to know the recent conditions and characteristics of depositors.
In general, the structure of the paper consists of two parts. The first part studies the results and findings of the series of surveys during 2000 – 2009 as mentioned above. In particular, this part elaborates the understanding of banking depositors with regard to Islamic banks followed by the analyses of their segmentations, investment behavior and liquidity behavior. The second part proposes an integrated program to develop the Islamic banking industry referring to findings from the first part. As figured in figure 1 above, the first part is the one in the grey boxes while the second part is the one in the black box.

2. Studies on the Output of Empirical Surveys

The purpose of this part is to study the understanding of banking depositors about Islamic banks, segmentation of depositors and, both the investment and liquidity behavior of depositors. The combination of these analyses generates information about the position and existence of Islamic banks in the public point of view as well as information about the perception, expectation and expression of depositors about Islamic banks.

2.1. Understanding of Depositors about Islamic Banking

In the last decade (2000-2010), there were some Islamic banking surveys conducted in the most populated provinces of three biggest Islands in Indonesia namely Java, Sumatera and Kalimantan Islands. All of respondents were depositors of both Islamic banks and conventional banks and had a good education background especially related to the knowledge of banking operations.

The first surveys were in Java Island. they were arranged in 2000 and interviewed 1022 respondents from West Java province, 1500 respondents from both Central Java province and Jogjakarta province and, 1503 respondents from East Java province.

The second survey was in Kalimantan Island. It was completed in 2004 and interviewed 880 respondents particularly those living in South Kalimantan province.

The last survey was in Sumatera Island and also completed in 2004 investigating 775 respondents coming from South Sumatera province.

A. Surveys of Banking Depositors in Java Island

The survey in West Java province was provided by Bogor Institute of Agriculture (IPB) in cooperation with Bank Indonesia (central bank of Indonesia) (Bank Indonesia and Bogor Institute of Agriculture, 2000). It captured the general perceptions of public about Islamic banking institution. Essentially, they perceived Islamic banks as: (i) the profit and loss sharing based banks (56%-63% of the respondents); (ii) the banks operated under Islamic values (57.8%-63% of the respondents) and; (iii) a less known banking institution (less than 7% of total respondents) (see figures 2 and 3 respectively).
However, survey in East Java province which was arranged by Brawijaya University in cooperation with Bank Indonesia further informed that Javanese people positioned Islamic banks indifferently with conventional banks. They dominantly preferred the latter (67.4% of respondents) to the former (Bank Indonesia and Brawijaya University, 2000).

The other survey in conjunction with surveys in West Java and East Java provinces, was the one in Central Java and Jogjakarta provinces and conducted by Diponegoro University in cooperation with Bank Indonesia (Bank Indonesia and Diponegoro University, 2000). With regard to depositors’ understanding on Islamic banking, it revealed that most of people in these two provinces have had Islamic accounts in Islamic banks. They employed and dealt with Islamic banks because of the condemnation of riba (64.8% of total respondents).

**B. Surveys of Banking Depositors in Kalimantan and Sumatera Islands**

After surveys of depositors in four provinces in Java Island, there was an Islamic banking survey in South Kalimantan province which was made by Bogor Institute of Agriculture (IPB) and Bank Indonesia (Bank Indonesia and Bogor Institute of Agriculture, 2004a). Interestingly, most of the respondents (88%) ever heard about Islamic banks but unfortunately only 75.6% of them declared that they understood the Islamic banking principles and operations. Further, they revealed that Islamic banks were: religious banks (64.3% of respondents), profit and loss sharing based banks (45.2% of respondents), less known banks (14.7% of respondents) and; banks for Moslems (13.2% of respondents).

Then, the Islamic banking survey in South Sumatera also arranged by Bogor Institute of Agriculture (IPB) and Bank Indonesia informed the same indication with the other provinces. Most of the respondents (72%) ever heard about Islamic banks. But,
unfortunately only 86.9% of them told that they had proper knowledge about the Islamic banking principles and operations. Further investigation found that they perceived Islamic banks as: the religious banks (72.8% of respondents), the profit and loss sharing based banks (46.3% of respondents) (Bank Indonesia and Bogor Institute of Agriculture, 2004b).

C. Recent Surveys on Banking Depositors
The first recent Islamic banking survey attaching all provinces in Java Island was completed by Rifki Ismal in 2009 (Ismal, 2009). He surveyed 409 banking depositors coming from West Java province, East Java province, Central Java province as well as Jogjakarta province via an online survey system. His survey found that the understanding of depositors were very high with respect to deposit instruments of Islamic banks (77.7% of total respondents).

But, it remained low in terms of their understanding about Islamic financing instruments (58.8% of total respondents) and depositors had a low involvement in using the financing instruments (27.7% of total respondents). Further elaboration found that depositors did not monitor their Islamic banks intensively (56.1% of respondents) and would take the funds from Islamic banks if economic condition was unstable (67% of respondents).

The second one is done this year (2010) by Muhammad Abduh and Rifki Ismal (Abduh and Ismal, 2010). They engage 232 respondents from Jakarta and East Java Island, consisting of 168 males (72.41%) and 64 females (27.54%). Most of the respondents hold undergraduate degree (56.03%), followed by postgraduate degree (28.44%) and senior high school (15.51%). Specifically, they identify that most of the respondents (90.94%) save their funds in Islamic banks (BUS) rather than Islamic windows (Islamic unit) (UUS). Realizing the legal status of BUS as full fledge Islamic banks and independent from the parent company (such as in UUS), such preference is very reasonable.

D. Findings from Surveys on Banking Depositors
The overall surveys reveal that the understanding of banking depositors with regard to Islamic banks in the last ten years is not satisfactory enough although it shows a progressive improvement. The good news is that the public in general are already familiar with the existence of Islamic banks.

But, the undesired news is that they are not familiar enough with Islamic banking principles and operations. In addition, the last survey informed that there was a good improvement in public understanding towards Islamic banking deposits products. But, there is a less improvement in public understanding towards Islamic financing contracts.
Furthermore, the perception of depositors about Islamic banking mostly stands on religious aspects such as the religious banks, the profit sharing based banks and the banks for Moslem. There is no economic perception related to economic or business benefits of dealing with Islamic banks. These facts tend to position Islamic banks as a bank for the pious persons per se while in theory and practices, Islamic banks exist to assist public in general including the non Moslems. One of the main purposes of Islamic banks is to guide economic/business activities to comply with the religious, moral and ethical aspects. Sharia also condemns interest (riba), uncertain (gharar) contracts and, gambling (maysir).

2.2. Segmentation of Banking Depositors
After exercising the understanding of banking depositors, investigating their characteristics through segmentation of depositors is also very important. For such purpose, this paper considers three empirical researches on segmentation of depositors done by Markplus (2008), Ismal (2009) and Abduh and Ismal (2010). These three researches illustrated the critical intention and motivation of depositors when dealing with Islamic banks and segmented them based on such intention.

A. Segmentation of Depositors based on Markplus
Markplus is a private consulting company specializing in marketing surveys. In 2008, Markplus did a survey on banking depositors engaging 642 respondents and living mostly in Java Island. In its survey, Markplus segmented banking depositors based on their interaction with Islamic banks and decision to deal with Islamic banks.

They segmented five segments of depositors namely: (a) fully occupying Islamic banks; (b) following trend; (c) depending on needs; (d) being forced by environment and; (e) fully occupying conventional banks, and explained in the following.

- **Fully occupying Islamic banks.** Depositors of this segment fully believed that interest was prohibited so that conventional banks were not halal (allowed) to be used in financial transaction. This segment was counted 16.4% of total respondents.

- **Following trend.** Depositors of this segment pursued the opinion, perception, order of their friends, families, colleagues when they wanted to interact with Islamic banks. This segment was counted 16.4% of total respondents.

- **Depending on needs.** Depositors of this segment used both Islamic and conventional banks in their financial/business transactions. They believed that each of the banks has its unique characteristics and they use them depending on their financial/business needs. This segment was counted 24.3% of total respondents.
Being forced by environment. Depositors of this segment did not fully believe in the prohibition of riba (interest) and did not understand operations of Islamic banks as well. In fact, they were forced by their business environment to deal with Islamic banks. This segment was not significant or only 9.2% of total respondents.

Fully occupying conventional banks. Depositors of this segment were not affected by the existence of Islamic banks. They kept using conventional banks instead of Islamic banks. Unfortunately, this segment was quite dominant or 33.8% of total respondents.

B. Segmentation of Depositors based on Ismal

Ismal (2009) segmented depositors based on their motivation when depositing money and dealing with Islamic banks. He classified depositors as sharia driven, profit driven and transaction driven and explained afterward.

Sharia Driven. Depositors of this segment were triggered by sharia principles and values embodied in Islamic banks and would never quit into conventional banks. Some of them had Mudarabah time deposit and Mudarabah saving deposits for the sake of developing Islamic projects. They did not want to switch their deposits to conventional banks when interest rate went up. But, they would certainly close their Islamic accounts if the banks were found non sharia compliant. This segment was counted 56.8% of total respondents.

Profit Driven. Depositors in this segment were driven by profit and positioned Islamic bank indifferently with conventional banks. They decided to add more funds based on the level of SBI rate and even would close the Islamic accounts if the return was less than expected or less than interest rate return. They frequently compared deposit returns from Islamic and conventional banks and chose the best (highest) return between them. This segment was counted 27% of total respondents.

Transaction Driven. Unlike the other segments, depositors in this segment dealt with Islamic banks for only the purpose of business transaction. They were depositors who would liquidate Mudarabah time deposits to fulfill their regular transactions and held two liquid (demand deposit and saving deposit) accounts from Islamic and conventional banks without any intention to do account switching for profit motive. Besides maintaining a modest amount of demand deposits in Islamic banks, they opened Mudarabah saving deposits for instant withdrawals or for daily basis withdrawals. This segment was counted 16.2% of total respondents.
C. Segmentation of Depositors based on Abduh and Ismal

Lastly, Abduh and Ismal (2010) segmented depositors based on their perception and expectation of the return on Islamic deposits. In particular, they classified depositors as: (i) religious depositors who give much faith on the compliance of Islamic banking products and operations with Sharia principles and practices; (ii) return oriented depositors who often compare the return of Islamic deposits of all Islamic banks; and (iii) economic condition depositors who depend on the economic/business condition to withdraw money from banks.

The first segment has high expectation to Islamic banks to have Islamic products and operate based on Sharia principles and practices (57.49% of total respondents). Whenever depositors find Islamic banks violate Sharia principles and practices, it is most likely that they will take their money out from the banks (deposit withdrawals).

However, the second segment prefers the best (highest) return offered by certain Islamic banks (15.26% of total respondents). The intention of this segment to compare the return on Islamic deposits could potentially cause volatility in the Islamic bank’s deposits. Lastly, the third segment will take some money from Islamic banks when there is an indication of financial/economic crisis. Compared with the first or the second segment of depositors, this last segment is neither return oriented nor religious oriented.

D. Findings from Surveys on Segmentations of Depositors

These three kinds of segmentations deliver some information regarding the considerations and conditions of depositors when depositing money and doing business with Islamic banks. The three most important ones are:

a) Most of people still prefer conventional banks to Islamic banks. The segment of fully occupying conventional banks is the largest segment in Markplus’ research. Even, if we assume the volatile segments as the segments out of the fully occupying Islamic banks segment, the percentage of respondents who do not rely on Islamic banks is 83.6%. It needs strong and serious efforts from Islamic banks, banking regulators and all stakeholders to promote and socialize Islamic banks to the public.

b) Most of Islamic banking depositors are pious persons, as represented by the sharia driven segment and religious depositors segment. Nevertheless, among depositors (pious or non pious), there are depositors who still expect to gain high profit by investing money in Islamic banks. Hence, encouraging Islamic banks to perform well in sharing the maximum return on investment is so recommended.

c) There are also depositors who occupy Islamic banks just for transactions purposes and anticipating unfavorable economic conditions. They seem do not
realize that Islamic banks could pay return on deposits if they locate funds in the Mudarabah time deposits. Recalling one of the findings from the previous section, this misunderstanding occurs because of lack of knowledge on Islamic banking operations.

2.3. Investment Behavior of Banking Depositors

The other essential examination is studying the investment behavior of depositors. It is analyzed from: (i) considerations of depositors when depositing money in Islamic banks; (ii) responses of depositors towards Islamic banking activities and achievement and; (iii) expectation of depositors when dealing with Islamic banks.

A. Surveys on Investment Behavior of Depositors in Java, Sumatera and Kalimantan

First of all, referring to the result of previous surveys in four provinces in Java, Javanese people got information about Islamic banks from (see figure 4):

- Information from their friends or relatives (54.7% of total respondents);
- Direct information from Islamic banks (26% of total respondents);
- Electronic media (23.3% of total respondents);
- Printing media (20.8% of total respondents);
- Brochure (13.3% of total respondents).

In addition, after having information about Islamic banks, they would deposit their money if Islamic banks were: Sharia compliance (100% of respondents); accessible (53.3% of respondents); credible (27.4% of total respondents) and; professional (14.1% of total respondents) (see figure 5).

However, secondly, the same as people from Java provinces, people from non Java Island (South Kalimantan and South Sumatera provinces) also discovered information about investment in Islamic banks from:
o Television (47.7% of total respondents);
o Friends/colleagues/family (36.8% of total respondents) and;
o Newspaper (33.9% of total respondents).

Further, they also asked Islamic banks to be: Sharia compliance (71% of total respondents), accessible (35% of respondents), professional (16.9% of total respondents) and, credible (16.9% of total respondents) before they decided to be depositors of Islamic banks.

B. Recent Surveys on Investment Behavior of Depositors

Following the output of surveys in Java, Sumatera and Kalimantan Islands above, there were three other recent surveys which shared the recent investment behavior of depositors. The first recent survey was from MARS, a private survey company, which conducted a survey in 2008 to study the behavior of Islamic banking depositors. It surveyed 615 respondents coming from Jakarta (capital city of Indonesia) and Surabaya (capital city of East Java province).

Based on MARS, depositors were aware with the existence of the top two Islamic banks in the country namely Bank Muamalat Indonesia (BMI) and Bank Syariah Mandiri (BSM), followed by the less dominant Islamic banks (in terms of their market share) such as Bank BNI syariah and, Bank Bukopin syariah. BMI and BSM came into depositors’ mind, when they wanted to deposit money, with the percentage of 64.9% of total respondents.

Further, MARS quoted that most of the depositors of Islamic banks were executives (middle level employees) with ages between 35-55 years old and held at least bachelor degree. Almost all of depositors (99.8% of total respondents) were aware with advertisement of Islamic banks from media (television) especially the ones from BMI, BSM and Bank BNI syariah.

Finally, continuing the prior findings from surveys in Java, Kalimantan and Sumatera, MARS identified five depositors’ requisites to Islamic banks in order to deposit their money in Islamic banks. Those were:
- Sharia compliant Islamic banks (48.9% of total respondents);
- Free from riba activities (37.9% of total respondents);
- Security (16.3% of total respondents);
- Accessible (12.7% of total respondents) and;
- Paying high return on deposits (12.5% of total respondents).

The second recent survey was from Markplus company which surveyed the expectation of banking depositors when dealing with Islamic banks. Interestingly,
confirming the previous surveys, Markplus found that depositors expected Islamic banks to be:

- Sharia compliance (71.4% of total respondents),
- Safe (68.3% of total respondents),
- Professional (67.7% of total respondents) and,
- Transparent (65.3% of total respondents)

**After they become depositors of Islamic banks.**

The last recent survey was based on Ismal (2009). He analyzed the investment behavior of depositors from their responses towards Islamic banking activities and achievement. Particularly, he found that the depositors of Islamic banks did not frequently monitor the performance of the banks. Only 56.1% of depositors did intensive monitoring, while others just passively deposited money and waited for the return sharing to be paid. Of those who monitored their banks, 51.9% of them gave strong attention to how much profit earned by banks and 26.7% of them concerned about business costs borne by Islamic banks.

**C. Findings and Information from Surveys on Investment Behavior of Depositors**

Finally, the overall findings of the surveys leave three important messages about the investment behavior of depositors, as in the following:

1. The most effective way to inform the existence of Islamic banks to depositors is through the electronic media (television). Previously, depositors knew the information about Islamic banks from friends, families or colleagues but recently, electronic media is more powerful than those previous information intermediaries.

2. Depositors locate their money in Islamic banks if the banks are sharia compliance. Reminding that Sharia compliance is the distinguishing factor between Islamic banks and conventional banks, this requirement is very reasonable and has to be taken into account by Islamic banks when they set up their banking development strategies.

3. The Islamic banks should also be accessible, professional, secure and competitive. As such, despite implementing the Islamic values (Sharia principles), the banks still have to operate as robust as the conventional banks.

**2. 4. Liquidity Behavior of Banking Depositors**

Completing the previous analyses on the understanding, segmentation and investment behavior of depositors, this subsection analyzes the liquidity behavior of depositors. Principally, it relates to the satisfaction of depositors with the deposit return paid by Islamic banks, their reaction to changes in interest rate and their withdrawal decision.
By knowing these three behaviors, Islamic banks might understand the level of satisfaction of depositors, their expectations and pattern of liquidity withdrawal.

The first reference is from Ismal (2009). He found that depositors would increase their saving if Islamic banks offered a higher return sharing ratio (41.1% of total respondents) or would accept a higher return sharing proposal when interest rate tended to go up (28.4% of total respondents). Unfortunately, they might close the Islamic account if the deposit return paid by the banks was less than expected (24% of total respondents) or less than interest rate (11.5% of total respondents) (see figure 6). These realities mean that profit motive still underlies the liquidity behavior of depositors.

Figure 6. Behavior towards Deposit Return

![Graph showing behaviors towards deposit return]

Adding more fund if bank offers higher return sharing ratio
Closing account if return sharing is less than expected
Asking for higher return sharing if interest goes up
Adding more fund if bank offers higher return sharing ratio

Further, with respect to changing in interest rate, depositors took into account the position of the central bank interest rate (SBI rate) as declared by 24.7% of total respondents (see figure 7). The influence of interest rates, for a small group of respondents, would even encouraged them to switch their deposits from Islamic banks into conventional banks if interest rate was more profitable (11.5% of total respondents). Or, they left Islamic banks permanently if the deposit sharing was less than interest. As such, the operational of Islamic banks is expected to be better than the conventional especially in generating profits from financing activities.

However, concerning the reasons to terminate time deposits, the depositors’ top three reasons were (see figure 8):

- Opening saving deposit for the sake of instant withdrawals (54.9% of total respondents).
- Opening saving deposit where it can be withdrawn on daily basis (43.1% of total respondents).
- Opening time deposit for only 1-month placement (15.2% of total respondents).

These reasons clearly explain the sensitiveness of depositors with regard to withdrawing money from Islamic banks. In particular, it relates to transaction
purposes. As such, besides performing well, Islamic banks have to be aware with the depositors’ needs of liquidity for transactions purposes.

Figure 8. Conditions/Reasons to Withdraw Funds

![Bar chart showing conditions/reasons for withdrawing funds]

More than withdrawing their money, there is a possibility for depositors to permanently leave Islamic banks. Islamic banks should be fully aware about this possibility as it can imbalance their liquidity management on the asset and liability sides. Again, Ismal (2009) listed the top five reasons for depositors to permanently leave Islamic banks which were:

- If BUS/UUS was not sharia compliant (71% of total respondents);
- If economic condition required depositors to hold cash on hand (66.9% of total respondents);
- If banks ever delayed their withdrawal request (64.9% of total respondents);
- If BUS/UUS faced loss and needed emergency liquidity (64.4% of total respondents);
- If it did not have proper network, facilities (50.2% of total respondents).

In fact, the reason to leave Islamic banks due to the non sharia compliance was also quoted in the survey from Mars (2008) and Markplus (2008).

At the end, the combination of output of survey on liquidity behavior of depositors emphasizes that Islamic banks should anticipate any execution of time deposits and the possibility of depositors to permanently leave the banks.

3. An Integrated Program to Develop Indonesian Islamic Banking Industry

After identifying and examining the understanding, segmentation, investment behavior and liquidity behavior of banking depositors, the paper recognizes that there should be an integrated program to develop the Indonesian Islamic banking industry. Such program is constructed based on information and results of the survey literatures...
above and is grouped into three consecutive subprograms as follows (see figure 9 below):
1. Socializing the operations and benefits of Islamic banks.
2. Educating the banking depositors.
3. Maintaining the loyalty of depositors.

3. 1. Socializing the Operations and Benefits of Islamic Banks
This first subprogram is proposed to enlarge and deepen the understanding of depositors. In early 2000, they have realized the existence of Islamic banks but recently, their understanding is still limited to the liability side (deposit’s contracts) and does not capture the asset side yet. There activities are suggested to be implemented in this subprogram:
   a) Inserting the course of Islamic banking in public school's and university’s curriculum;
   b) Involving Islamic scholars (ulama) to socialize the benefit of Islamic banks and;
   c) Setting up a regular TV program on Islamic banking education.

By inserting the course of Islamic banking in all public schools and university’s curriculum, the understanding of people ultimately the young generation will be improving. Through the formal course, the operations of Islamic banks might be introduced and be understood by public. However, this activity requires competent teachers/lecturers who understand comprehensively the concepts and operations of Islamic banks.

Figure 9. An Integrated Program to Develop the Indonesian Islamic Banking Industry

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<td>b. Keeping sharia compliance in all of banking operations.</td>
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<td>c. Improve the payment system to control withdrawing request.</td>
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<tr>
<td>d. Improving the banks’ networks and facilities</td>
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Besides involving teachers/lecturers, the subprogram demands the attachment of Islamic scholars (ulama) to socialize the banks. In Indonesia, the role of Ulama is very crucial to influence and guide public opinion and perception toward Islamic banking. Lastly, intensifying the TV program on Islamic banking education is also recommended. Considering survey’s information that, the current most effective media communication to people is through TV program, socializing Islamic banks via TV is very likely to improve public understanding on Islamic banks.

The expected results of applying the first subprogram are: (i) the level of understanding, awareness and knowledge of public in general will be improving and moving toward the ideal contribution to develop the industry; (ii) positive image about Islamic banks is created not only about its religious benefits but also economic benefits; (iii) more people will participate in Islamic banking business as depositors, business partners, consultant and, trainers (teachers/lecturers).

3.2. Educating the Banking Depositors

The implementation of the subprogram is continued and integrated with the second subprogram which is educating the banking depositors. This second subprogram is composed of three activities which are;

a) Explaining depositors and attracting them to invest more funds in the long-term Mudarabah time deposits;

b) Explaining the facilities, products and services of Islamic banks and;

c) Explaining the role of sharia board in Islamic banks.

Well-understood depositors as a result of the first subprogram would lead to the easiness of them to accept the explanation about the detail products of Islamic banking. For example, Islamic banks would easily introduce the long-term Mudarabah time deposit to depositors and convince them to invest money on such instrument. Indeed, placement of funds in the long-term investment instrument would lead to a higher return on investment and higher return sharing on deposit which is the motif of profit oriented segment as discussed previously.

Besides explaining about the Islamic banking products, the bank might also explain the facilities and the other products and services being offered. In fact, currently Islamic banks have had a national cash machine networks which is useful to support the business transaction of depositors who belong to transaction motif segment.

Then, educating depositors about the role of sharia board would hopefully increase their trust and reliance about the sharia compliance of their Islamic banks. In fact, the
Council of Indonesian Sharia Scholars (MUI) is very strict in approving the Islamic contract proposal. Indonesian Islamic banks are not allowed to implement some disputable Islamic contract such as Bay al Innah, Tawarruq, Bay al Dayn, Bay al Arbun and, Bay al Wafa.

The implementation of the second subprogram is expected to: (i) further deepen the depositors’ understanding and involvement in Islamic banking activities; (ii) improve their investment decision and; (iii) ensure them about the security, convenience and compliance of the Indonesian Islamic banks.

### 3.3. Maintaining the Loyalty of Depositors

Following the implementation of the previous two subprograms, the last subprogram is carried out to maintain the loyalty of depositors. Assuming that characteristics of depositors have been improved as a result of the successful implementation of the 1st and 2nd subprograms, this third subprogram consists of four complementing activities:

a) Building a better communication with depositors regarding their return expectation and withdrawal schedules.

b) Keeping sharia compliance in all of banking operations.

c) Improve the payment system to control withdrawing request.

d) Improving the banks’ networks and facilities.

The loyalty of depositors is believed to be successfully maintained if Islamic banks apply those four activities. A better communication with depositors would make a better relationship between Islamic bank and its depositors. It can generate a two way understanding on depositors’ expectation, liquidity behavior including liquidity withdrawals.

As most of depositors and public require Islamic banks to be always sharia compliance, keeping Islamic bank sharia compliance particularly in all of its banking operations is a must. The other activity to retain depositors and attract new depositors is to improve the payment system. It can be realized by establishing a joint payment system with some large banks which have large payment system networks. Lastly, rather than relying on conventional banks’ networks, Islamic banks are encouraged to have their own networks.

### 4. Conclusion

There have been some intensive and reliable surveys on characteristics of banking depositors in the last decade. The literature survey on those surveys generates
information about the level of understanding of depositors, segmentation of depositors, investment behavior and liquidity behavior of depositors. Such information is then used as to construct and propose an integrated program to develop the Indonesian Islamic banking industry.

The program is composed of three subprograms which attempt to improve the understanding of depositors, further educate them and maintain their loyalty. However, the successfulness of the proposed program depends on support and commitment of Islamic banks, banking regulators, stakeholders, Islamic scholars and all related parties.

References


