FACTORS INFLUENCING SELECTION OF ISLAMIC BANKING IN THAILAND: THE MEDIATING EFFECT OF CONFIDENCE

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By

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ABSTRACT

The main purpose of this study is to identify factors influencing customers’ decision to select with confidence Islamic banking in southern parts of Thailand as the mediating variable. Based on the Intermediation Theory and Consumer Behavior Theory, banks are to act as intermediaries by utilizing the depositors’ money to provide banking products and services which meet their customers’ needs and expectations. Gaining customers’ confidence is important as banking business is based on trust and integrity. Hence, as mediating variable, customers’ confidence in the way Islamic banking is conducted is hypothesized to strengthen the customers’ decision to select Islamic banking in Thailand. This study employs a survey method, factor analysis and structural equation modeling. Self-administered questionnaires were obtained from 300 Islamic bank customers (representing 67 percent response rate). Based on the results, the study finds that 51.7 percent of the Islamic bank customers in southern Thailand are corporate customers; and they are mostly women entrepreneurs. This is an important demographic trend finding which shows that working women are becoming more extensive users of Islamic banking products and services. Based on factor analysis, factors which emerge as important in determining customers’ confidence in Thailand are religion, reputation, knowledge, attitude, convenience and service. While confidence and religious motives are direct, and significantly related to bank selection, confidence is found to have a positive while religious motive a negative influence on Islamic bank selection. In terms of mediation effect, attitude, convenience and reputation through confidence exhibit full mediation effect. The findings imply that Islamic banks should emphasize on efforts to gain customers’ confidence through better Syariah governance, human resource development, knowledge dissemination and promotions to ensure customers select Islamic bank as their principal banker.

Keywords: Confidence, Islamic Banking, Bank Selection Decision

**Kata kunci:** Keyakinan, Perbankan Islam, Keputusan Pemilihan Bank
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CHAPTER ONE
INTRODUCTION

1.0 Background of the study

Banks have for long been important organizations with vital functions in society. In particular, banks as financial institutions play the role as intermediaries and facilitate the flow of funds from saving-surplus-units (SSUs) to savings-deficit-units (SDUs). Islamic banks similarly, operate as financial institutions that generate profit but based on principles of Islam or the Shariah Laws. Islamic law (Shariah) of commercial transaction is fundamentally rooted on the premise of total eradication of riba (usury), gharar (uncertainty), and masir (speculation). It balances the moral and material needs of a society to achieve socio-economic justice. Islamic banking has become an essential sector of the modern economy.

Islamic economic principles share risk and rewards in wealth creation by means of equity rather than debt. It promotes entrepreneurship and creativity in the economic cycle. In the Islamic economic model, each individual is involved in the economic activity. This differs from modern capitalism where profit maximization is the sole motive and the bank is broadly content with earning interest on the loan regardless of the social and financial implications of the business. In addition, the orientation of modern capitalism does not include God and society as its integral part of acquiring wealth. As such, it does not have any restriction in the way wealth is obtained. The different approaches in world view between Islam and modern capitalism is reflected in the
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