

# The antecedents of Muslim customers' intention to invest in an Islamic bank's term deposits: evidence from a Muslim majority country

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## Abstract

**Purpose** – The purpose of this study is to examine the impacts of product knowledge, perceived quality, perceived risk and perceived value on customers' intention to invest in Islamic Banks. This study specifically examines an Islamic bank's term deposits.

**Design/methodology/approach** – Structural equation modeling was used to analyze the data collected from 217 customers of an Islamic bank in Indonesia using an online survey.

**Findings** – This study highlights the central and dual roles of perceived risk as both the independent and the intervening variable that mediates the relationship between product knowledge and Muslim customer intention to invest in an Islamic bank's term deposits.

**Research limitations/implications** – This study only investigates term deposits as one type of investment in Islamic banks. This study contributes to the literature by examining the role of product knowledge, perceived quality, perceived risk and perceived value on Muslim customer intention to invest in Islamic term deposits.

**Practical implications** – The results of this study highlight the requirement for Islamic banks to educate customers to improve the depositors' product knowledge because Muslim customers' risk and value perception and intention are strongly influenced by product knowledge.

**Originality/value** – The investigation of perceived risk is particularly relevant for Islamic financial products because of the inherent nature of risk sharing in Islamic finance. This study investigates the role of product knowledge in influencing the Muslim customers' perception of risk, quality, value and their intention to invest in Islamic bank term deposits. Ideally, the profit loss sharing concept (PLS) should be applied; however, in this context, revenue sharing is applied because of Indonesia's central bank regulation.

**Keywords** Product knowledge, Perceived risk, Islamic bank, Perceived value, Perceived quality

**Paper type** Research paper

## 1. Introduction

In the current uncertain global economy, investors are looking for low-risk and stable investments. One of the alternatives for such investment is term or time deposits. A time

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deposit is characterized as an investment with a fixed rate of interest. This is a safe investment because it is resistant to the changing economy and ensures growth in savings (Bankbazaar.com, 2018). The customers' effort to avoid risk by investing in term deposits has driven the deposit market to become a supercompetitive market. In the USA, for example, many banks have increased interest rates to attract more customers' deposits (Gray, 2018). This phenomenon is aligned with the classical, neo-classical and contemporary economic theories, which state that interest rates determine the level of savings in the economy (Haron and Ahmad, 2000).

Similar to conventional banks, Islamic banks rely on depositors' money as a major source of funds (Haron and Ahmad, 2000). However, the concept of interest or fees charged by the lender to the borrower is prohibited in Islam (Haron and Ahmad, 2000). According to Islamic principles, if a Muslim wants to use his money to make more money, then he should be willing to put his money at risk (Hossain, 2009). In other words, risk taking from an Islamic perspective can lead to both profits and losses because philosophically it is only God who can determine future outcomes while Man cannot determine the future path of his action (Rosly and Zaini, 2008).

Therefore, the Islamic customer banks, especially those that invest their money in term deposit products, should be willing to bear risks regardless of the type of contract used in the investment deposits (e.g. *mudarabah*, commodity *murabahah*, etc.). In the investment deposit under the *mudharabah* contract, the depositor or customer, known as *rabbul mal*, is seeking the investment opportunity and will invest through the bank, known as *mudarib*, which manages the fund (Hamzah et al., 2014). As a substitute for interest, the Islamic bank applies the revenue sharing and profit loss sharing system. The profit loss sharing system is the most ideal system, which is fully aligned with the Islamic juristic principle in regard to the concept of risk, which is called as "*al-ghunm bil ghurm*", which means "one is entitled to a gain if one agrees to bear the responsibility for the loss" (Hossain, 2009). Profit is shared based on the pre-determined ratio (e.g. 40:60 or 30:70) based on the bank's performance (Hamzah et al., 2014). However, a revenue sharing contract basically gives more privilege to the customers because the bank should cover all the operating costs for the investment.

Based on the above discussion, the risk factor can be identified as one factor that may influence Muslim customers to feel reluctance to invest in an Islamic bank. However, many other factors that influence customer banking behavior and loyalty, such as product knowledge, perceived quality and perceived value (Bloemer et al., 1998; Devlin, 2002; Dusuki and Abdullah, 2007; Gray, 2018), have been identified. Product knowledge, for example, is found to determine the customer choice criteria for retail banking in the UK (Devlin, 2002). Customers with low product knowledge tend to select retail banking based on geographical proximity and recommendations, while knowledgeable customers tend to select based on the intrinsic attributes of the banking services such as service attributes, rate of return and low fees. Another study in the banking sector reported that customers place high value on sophisticated online tools, national branch networks and other services that can only be provided by large banks (Gray, 2018). Moreover, regardless of the size of the bank, customers place high value on the interest rate on deposits (Gray, 2018).

When we specifically look at Muslim banking behavior, we can see that Muslim customers who invest their money in Islamic banks are still largely driven by the profit motive, which was confirmed by the negative relationship between the Islamic bank's interest-free product and the interest rate of conventional banks (Haron and Ahmad, 2000). A similar pattern of Muslim banking behavior is reported in Sudan, Jordan, Singapore and Malaysia (Haron and Ahmad, 2000). Among the previous mentioned Muslim majority countries, Indonesia is the largest Muslim country in the world, with more than 225 million Muslims, constituting 87.2% of its population (Livepopulation.com, 2018). Despite

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Indonesia's large Muslim population, however, the market share for the Islamic bank deposits in the country are much lower compared to conventional banks. The total market share for the Islamic bank term deposits in Indonesia as of June 2018 reached only IDR 195.325bn (Indonesia Financial Service Authority, 2018), which is lower than that of the conventional bank, which amounted to IDR 2,084,018bn; thus, the former only amounted to 9.3% of the conventional bank's term deposits (Bank Indonesia, 2018).

Based on the above discussion, this study aims to examine the Muslim investment behavior related to term deposits. Term deposits were selected because they theoretically involve much higher risk and take longer to mature compared to saving and demand deposits that allow the customer to withdraw the money at any time (Haron and Ahmad, 2000). However, because of the local central bank regulations, profit loss sharing is not applied in the Indonesian Islamic bank term deposit product. As a consequence, the Muslim customers of the Islamic bank are not exposed to the risk of losing their investment. Our study contributes by examining the role of product knowledge in the Muslim customers' risk, quality and value perception and its impact on their intention to invest in Islamic bank's term deposits. The rest of this paper is organized as follows. Section 2 discusses related literature on the determinants of saving and investment. Section 3 describes the methodology used in this study. Section 4 presents the empirical findings and analysis, and the last section provides that conclusion for this study.

## 2. Literature review

### 2.1 Deposits in Islamic banks

In economic literature, the concept of saving is closely related to consumption. Two main theories in examining saving and consumption behavior are the permanent income hypothesis (Friedman, 1957) and the life-cycle hypothesis (Ando and Modigliani, 1963). The permanent income hypothesis divides income into two components: permanent and transitory. The expected income over a long time period is defined as permanent income, while the difference between permanent and actual income is defined as transitory income. The permanent income hypothesis argues that saving is primarily determined by permanent income, while transitory changes in income do not have any impact on saving. The life cycle hypothesis suggests that individual consumption is spread over one's lifetime. Thus, one accumulates savings over the working period, and then uses those savings to maintain the consumption level during the retirement period. This hypothesis suggests that demographic factors play an important role in determining savings, and these theories emphasize the role of interest rates toward saving.

In Islamic finance, interest rates are considered as *gharar* and *riba*, which are prohibited in any economic transactions. *Gharar* (literally misrepresentation or fraud) exists when there is deception in trading such as misrepresentation about quality, pricing and product types (Warde, 2000). *Riba* (literally an increase) can be defined as the act of charging rent for the use of money (Warde, 2000). *Riba* has a closer meaning to interest than *gharar*. However, in the contemporary finance system, both are embedded in many transactions; therefore, interest rates are essentially prohibited in Islamic finance.

Islam prohibits interest rates, because their use would inhibit the attainment of *Maqasid al-Shariah*. *Maqasid al-Shariah* is the higher objective of the rules of Islamic law to safeguard Muslims' faith (*din*), self (*nafs*), intellect (*aql*), posterity (*nasl*) and wealth (*mal*) to realize well-being (*falah*) and a fulfilling life (*hayat tayyibah*) (Chapra *et al.*, 2008; Meera and Larbani, 2006). *Maqasid al-Shariah* reflects the holistic view of Islam to facilitate the normal functioning of society by enhancing the public good (*maslaha*) and avoiding actions that cause harm to individuals and society ("Maqasid al-Shari'ah", 2020).

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However, despite *Maqasid al-Shariah's* ideal concept and objectives, it is not easy for Muslims to realize the concept in every aspect of life, including in the context of Islamic banking and finance (Dusuki and Abozaid, 2007). Note that interest rates still may play important roles in many Muslim countries, particularly in monetary and banking systems.

The existing literature shows that the relationship between interest rates and savings in Muslim countries is mixed. Kasri and Kassim (2009) studied the determinants of savings in Islamic banks in Indonesia from 2000 to 2007 using macroeconomic data. They reported that the interest rate has important roles in determining the level of saving in the Islamic banks. Moreover, they reported that depositors in Islamic banks tend to transfer their savings to conventional banks when the rate of returns of Islamic financial products is lower than that of interest rates.

Akram and Akram (2015) analyzed the savings behavior in four countries with Muslim majority populations and four countries with non-Muslim majority populations using data from 1975 and 2012. They found that the relationship between the interest rate and savings is only significant for the non-Muslim majority countries. Because they use macroeconomic variables, they cannot show the role of religiosity in determining savings in the Muslim majority countries. Furthermore, they suggest using micro-level data to investigate this relationship. A recent study by Mushtaq and Siddiqui (2016) using data from 23 non-Muslim and 23 Muslim countries from 1999 to 2014 shows that interest rates do not have any impact on bank deposits. Furthermore, they reported that although some people in Muslim-majority countries put their money in conventional banks, their savings are not sensitive to changes in interest rates. This means that the motive for putting money in the bank is for saving or precautionary purposes. Similar to Akram and Akram (2015), they suggest looking for different variables at the micro level.

Dusuki and Abdullah (2007) surveyed 750 respondents in different regions in Malaysia to examine the reasons why people engage with Islamic banks in a dual banking environment. They found that the determinants are a combination of Islamic and financial reputation and quality service; however, this study does not focus on the determinants of saving. Overall, the prior studies mainly examine the determinants of saving at a macro level. Conversely, our study contributes by examining the determinants of saving at a micro level.

## 2.2 Saving behavior in Indonesia as a Muslim majority country

Indonesia has the largest Muslim population in the world (Diamant, 2019). The total number of Muslim adherents in the country in 2020 is estimated to be 229 million or around 87.2% of its total population ("Muslim Population By Country", 2020). However, although Indonesia has the largest Muslim population, the development of the Islamic bank in the country has been very slow (Pramono, 2018). After the establishment of the Islamic bank in Indonesia in 1991, the market share of the bank has experienced the so-called "five per cent trap" because the bank's market share never exceeded 5% of the total market share for almost 25 years (Bloomberg, 2019). The market share of the Islamic bank saving products represented a low percentage of IDR, amounting to 394.7tn (6.8%) of IDR and a total market share of 5,799.8tn (Jayani, 2019). In addition to the low market share, previous studies examining the level of knowledge and awareness about Islamic banks in multiple countries, such as Malaysia, Indonesia, UAE, Pakistan and Saudi Arabia, show that Indonesia only ranked in the fourth position in term of Islamic finance knowledge after Malaysia, UK and Pakistan. The low market share and lack of knowledge of the Muslim population of the country about Islamic finance and banking raises the question of why this situation exists in Indonesia as a Muslim majority country. Thus, the study aims to examine the impact of knowledge on Muslim customers' intention to save or invest in Islamic banks.

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### 2.3 Product knowledge

Erol and El-Bdour (1989) reported that religion is not the main reason for Islamic bank customers to patron Islamic bank. Knowledge of the Islamic bank's products plays an important role in selecting financial products along with the bank's reputation and image (Haron *et al.*, 1994). A study among Muslim customers in Malaysia shows that a majority of Muslim consumers have very limited knowledge about Islamic banks (Ahmad and Haron, 2002). The Muslim consumers do not even really know the philosophical objectives of the Islamic bank. What they do know is that interest is prohibited in Islam (Ahmad and Haron, 2002). A majority of them have no specific knowledge about certain terminology of the Islamic bank (e.g. *mudharabah*, *ijarah*, *istisna*, etc.) (Ahmad and Haron, 2002).

From the conventional literature, product knowledge comprises expertise and familiarity with products (Alba and Hutchinson, 1987). Familiarity refers to the accumulation of product-related experiences, while expertise reflects the ability of the consumer to effectively perform product-related tasks (Rao and Monroe, 1988). Moreover, product knowledge can be classified into objective and subjective knowledge (Rao and Monroe, 1988). Objective knowledge is information that is stored in the memory of the consumer, while subjective knowledge is what the consumer perceives they know about the product (Rao and Monroe, 1988). Previous knowledge about the product supports the acquisition of new knowledge and the utilization of existing knowledge (Park and Lessig, 1981). One study in an automobile industry reported that consumers' perception of product quality is influenced by the knowledge of the consumer (Blair and Innis, 1996). Eisingerich and Bell (2008) also suggested that customer education that improves customer knowledge will influence the way the consumer perceives service quality. A study conducted by Haron *et al.* (1994) reported that Muslim and non-Muslim customers have similar perceptions when selecting bank services such as in terms of the quality of service and the provision of fast service. Thus:

*H1.* Product knowledge has a positive impact on perceived quality.

Products comprise visible and invisible characteristics (Ophuis and Van Trijp, 1995). According to prospect theory, decision-makers compare both the expected value and the expected risk related to the decision (Wang and Hazen, 2016). The inability of a product to present visible or physical cues will make the customer perceive the product as risky (Laroche *et al.*, 2003). A study in the fashion industry shows that customers who cannot evaluate the tangibility of products feel insecure about the item's ability to perform (Aghekyan-Simonian *et al.*, 2012). This insecure feeling because of the unavailability of physical cues makes customers feel afraid of financial loss as a result of purchasing uncertain products or services (Grewal *et al.*, 1994). A company that is able to provide important information about its products and services may help customers to develop product knowledge and thus reduce the consumer's uncertainty about certain products (Eisingerich and Bell, 2008). Consumer knowledge will increase perceived value and help the customers to develop a more trusting relationship with the service provider because the knowledgeable consumer has a better opportunity to process the information in greater depth (Eisingerich and Bell, 2008).

In the context of Islamic banks, product knowledge is highly important because the products of conventional and Islamic banks have some basic differences. The consumer should know that, in Islam, the benefit of the society is prioritized. Therefore, interest rates are prohibited because they only benefit one party's interest. As an alternative, a profit-sharing scheme is offered to consider the society's interest as a whole (Hilman, 2016). A term deposit in an Islamic bank is an investment deposit under the principles of *Mudharabah* where the customer and the bank are both known as partners (Amin, 2013; Haron *et al.*, 1994). With term

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deposits, the customers will not get a predetermined return for a fixed period and do not carry any guarantee of their nominal value because they would with a conventional bank. However, depositors are informed in advance about the formula of the profit-sharing ratio used for sharing the net earnings of the investment pool with the bank, which are heavily dependent on the bank's performance (Amin, 2013). Thus, the depositors will share both the profit and the loss that the bank may incur. The longer the maturity of investment, the higher the weightage of the profit-sharing agreement. Many previous studies have shown that, on an average, the Islamic investment rates are significantly lower than the conventional bank (Chong and Liu, 2009). However, note that, in practice, the sharing of Islamic banking returns in Indonesia is performed using the revenue sharing concept rather than the profit and loss sharing (PLS) concept (Ismal, 2012). Thus, the investors are free from the obligation to bear any risk. In other words, they most likely always receive a positive and regular return (Ismal, 2012). However, without any product knowledge about the characteristics of the term deposit in an Islamic bank, the customer will perceive that the risk of investing in an Islamic bank is higher compared to the risk of investing in a conventional bank. Therefore,

*H2. Product knowledge has a negative impact on perceived risk.*

Product value refers to the consumer's overall assessment of the utility of a product (or service) based on perceptions of what is received and what is given (Zeithaml, 1988). One study that examined consumer perceptions of remanufactured automobiles shows that perceived value is significantly influenced by consumer knowledge (Wang and Hazen, 2016). A previous study on Islamic banks shows that Muslim customers in both rural and urban areas in Malaysia in general have a lack of awareness in terms of the existence of Islamic banks, Islamic banking terms and attributes of Islamic banking (Thambiah *et al.*, 2010). Thus, they remain unaware about the value of the Islamic bank products, their relative advantages and the compatibility of the products with conventional bank products (Thambiah *et al.*, 2010). Therefore:

*H3. Product knowledge has a positive impact on perceived value.*

The effect of product knowledge on purchase intention have been largely examined in the new and foreign product context (Bamber *et al.*, 2012; Lin and Chen, 2006; Wang *et al.*, 2013). Scholars had suggested various strategies such as educating the market at an early stage through a promotion program for school-age children and teenagers; emotionally attractive advertising; Islamic banking and finance education and tactical field personal selling, to educate Muslim consumers to increase the Islamic bank penetration rate (Setyobudi *et al.*, 2015). A previous study reported that consumers with higher product knowledge would have a higher understanding and appreciation of new products (Wang *et al.*, 2008), which in turn would generate higher purchase intention; in other words, expert consumers would have a higher intention to purchase compare to novice consumers (Cakici and Shukla, 2017). In the Islamic bank research context, Muslim customers in Malaysia consider to patronize the Islamic banks if they have a comprehensive understanding about the operation of such banks (Haron *et al.*, 1994). Therefore:

*H4. Product knowledge has a positive impact on intention to invest.*

#### *2.4 Perceived quality and perceived value*

A study by Mylonakis *et al.* (1998) concluded that the perceived quality of products and services is one of the main criteria for customers in selecting a bank. Perceived quality is among the primary components of perceived value (Dodds and Monroe, 1985; Ruiz *et al.*, 2008). It is a vital element to investigate in the formation of perceived value because it contributes to the

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company's competitive advantage (Reichheld and Sasser, 1990) and is considered the most difficult element for competitors to imitate (Parasuraman and Grewal, 2000). Using tourism data, Chiang and Lee (2013) show that perceived value is a dynamic determinant of tourism selection. This is also a key factor to understand purchase behavior, which is related to the improvement of service quality; therefore, the following hypothesis was formulated:

H5. Perceived quality has a positive impact on perceived value.

### 2.5 Perceived quality and perceived risk

Snoj *et al.* (2004) found that perceived quality and perceived risk have a strong relationship. Research by Clow *et al.* (1998) found that cues of service quality can contribute to reducing the perceived risk of consumers. These cues can be in the form of any stimuli that can deliver information about the quality of the product or service before the consumer can consume or experience it (Mehrotra and Palmer, 1985). Especially now that customers are more sensitive to the financial aspects of products and services, it is increasingly important to study this relationship.

In the context of banking, financial risk becomes the main risk that a consumer focuses on because the main products offered by banks are financial products (Chen and Chang, 2005) such as savings and term deposits. However, perceived risk can be observed more broadly to not only include financial loss but also discrepancies with regard to expected utility, physical damage, unhappiness and negative social image (Chen and Chang, 2005). Snøj *et al.* (2004) found that perceived quality has a weaker impact when it is measured alone but a stronger impact when perceived risk is included. This negative link between perceived quality and perceived risk was reported by Sweeney *et al.* (1999). Thus, the following hypothesis can be formulated:

H6. Perceived quality has a negative impact on perceived risk.

### 2.6 Perceived risk and perceived value

Islam has its own juristic principle in regard to the concept of risk. The Arabic phrase “al-ghunm bil ghurm” means “one is entitled to a gain if one agrees to bear the responsibility for the loss” (Hossain, 2009). Based on this concept, Echchabi and Olaniyi (2012) identified risk sharing as one of the implications of the brotherhood and cooperation principle in Islamic banking, which distinguishes it from its conventional counterparts. In the Islamic banking system, cooperation and sharing must happen between the provider of the funds and the user (Ahmad, 2016; Iqbal and Molyneux, 2005). In the conventional business context, Snøj *et al.* (2004) reported that perceived risk has a negative influence on perceived value. In a study by Kwun and Oh (2004) in a restaurant context, perceived risk was reported to have a negative impact on perceived value both before and after dining in the restaurant. In their study, perceived risk was a more important consideration for customers compared to brand or price factors.

Based on the discussion above, the following hypothesis was formulated:

H7. Perceived risk has a negative impact on perceived value.

### 2.7 Perceived quality and intention

Perceived quality in the service industry is known as service quality. A study by Ali *et al.* (2013) described perceived service quality as the customer perception of the actual

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performance of the service received by the customer and provided by the company, including in the Islamic banking context. The study also found that the quality of service is directly influenced by the customer's perceptions of performance levels. In the tourism industry, perceived quality of a destination's offerings was found to lead to behavioral intentions of tourists to visit the destination (Žabkar *et al.*, 2010). In a study of coffee shops, both perceived product quality and perceived service quality had positive influences on the intention to revisit the coffee shops (Ting *et al.*, 2018).

In the context of Islamic financial products, Newaz *et al.* (2016) studied the relationship between religiosity, buying attitude and purchase intention. They found that purchasing attitude has full mediation for Islamic financial products, except for Islamic insurance products. Therefore, the next hypothesis is:

*H8.* Perceived quality has a positive impact on intention to invest in term deposits.

### *2.8 Perceived risk and intention*

Intention to invest is a type of purchasing behavior intention. Customers are expected to gain positive consequences from a product to make them feel satisfied or engage in purchasing behavior. However, when customers face the potential for negative consequences from using a product, we call this perceived risk. Negative consequences result in a negative impact for customers and decrease their purchase intention (Stone and Grønhaug, 1993).

Research by Croy *et al.* (2010) found that the intention to save is greater in a more (vs less) risk-tolerant person. Therefore, customers who are less likely to hold risky financial asset will lower their intention to save or invest in a bank. This study also found that risk-taking is positively associated with income, is negatively associated with age and is lower in women than in men. Thus, the following hypothesis can be formulated:

*H9.* Perceived risk has a negative impact on customers' intention to invest in term deposits.

### *2.9 Perceived value and intention*

Perceived value refers to a customer's evaluation of the quality received. Perceived value is one of the more intangible determinants of a bank's strategy. Perceived value and image have been related to the loyalty of the consumer in the banking sector (Roig *et al.*, 2006). Kuo *et al.* (2009) reported that perceived value has a positive impact on both customer satisfaction and intention. Higher perceived value leads to higher purchase intention. Accordingly, the subsequent hypothesis can be formulated:

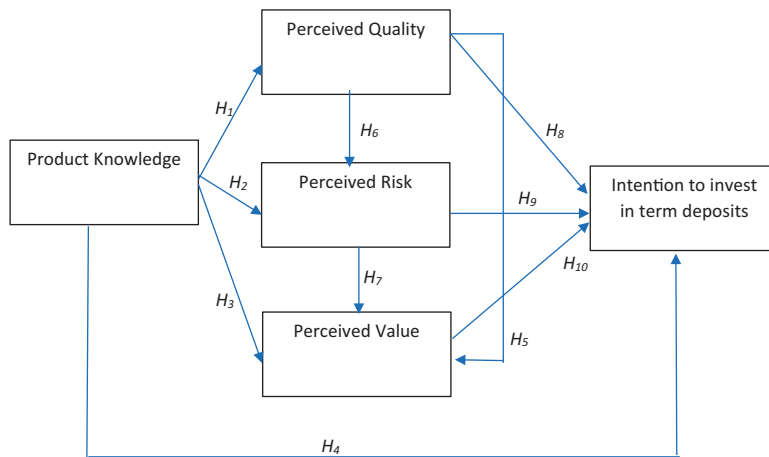
*H10.* Perceived value has a positive impact on customers' intention to invest in term deposits.

The ten research hypotheses are summarised in [Figure 1](#) below.

## **3. Method**

This research is quantitative with a single cross-sectional design. The design is aimed to capture the current condition of customers of Islamic banks regarding their willingness to save in the form of term deposits. An online questionnaire was used as a method of data collection, which was distributed through personal connections and social media. This method of data collection was chosen because of its ease of use, flexibility and the ability to reach a diverse pool of respondents (Epstein *et al.*, 2001). Convenience sampling was used to gather as many respondents as possible in a limited time frame. There was no prerequisite





**Figure 1.**  
Research model

for the respondents to have already been a customer of Islamic banks because the variables in this study are based on perceptions and not customer experience. However, the respondents were required to answer one filtering question on whether they had ever opened a term-deposit account in either a conventional or an Islamic bank.

In this study, there are five variables of interest, namely, product knowledge, perceived quality, perceived risk, perceived value and intention to save. Each variable was measured using modified items from the established questionnaire from the previous literature. Modifications were required as the study specifically investigates consumer knowledge, perception and intention in Islamic term deposit products (Table 1). The measure of product knowledge was modified from an instrument of product knowledge and comprises seven items (Nepomuceno *et al.*, 2014). The measure of perceived quality was modified from a perceived quality scale instrument and comprises three items (Das, 2015; Wang, 2017). Perceived risk was measured using a modified financial risk instrument, which comprises three items (Agarwal and Teas, 2001). The researchers modified the perceived value scale from a previous study conducted in the banking services context, comprising three items (Roig *et al.*, 2006). Intention to invest in an Islamic bank term-deposit was adapted from an intention to use Islamic personal loan scale, which comprises five items (Amin *et al.*, 2011).

The questionnaire was translated to the Indonesian language to ensure that the respondents would completely understand the items. The items used were operationalized using a seven-point Likert scale ranging from “highly disagree” to “highly agree”. The tests of validity and reliability were performed before proceeding to the primary test. The SEM results indicate that the questionnaire items used are valid and reliable because the composite reliability (CR) values are above 0.7 and the average variance extracted (AVE) values are above 0.5 (Bacon *et al.*, 1995; Hair *et al.*, 2017).

A total of 217 responses were obtained. Respondent characteristics are presented in Table 2. A majority of the respondents were married (48.8%), had bachelor’s degrees (38.7%), had an income between IDR 1 and 24.9m (78.34%), were female (58.1%) and had both conventional and *Sharia* accounts (52.5%). An interesting point here is that not all Muslim consumers in this study own accounts in an Islamic bank, which is in line with the statistics that show that Islamic financial product uptake is still low.

Variable	Items	Adapted sources
Product knowledge	<ol style="list-style-type: none"> <li>1. I am knowledgeable about Islamic bank term deposits</li> <li>2. The information search I have performed on Islamic bank term deposits is strong</li> <li>3. I do not have much experience with Islamic bank term deposits (reversed)</li> <li>4. In general, I have good knowledge about Islamic bank term deposits</li> <li>5. I am well informed about Islamic bank term deposits</li> <li>6. Compared to my friends and acquaintances, I am knowledgeable about Islamic bank term deposits</li> <li>7. Compared to experts in this area, I have good knowledge about Islamic bank term deposits</li> </ol>	Nepomuceno <i>et al.</i> (2014b)
Perceived quality	<ol style="list-style-type: none"> <li>1. The Islamic bank term deposit product is superior compared to other investment products</li> <li>2. The Islamic bank offers a term deposit product with excellent features</li> <li>3. The overall Islamic bank term deposit quality is good</li> </ol>	Wang (2017), Das (2015)
Perceived risk	<ol style="list-style-type: none"> <li>1. Considering the potential investment involved, opening a term deposit account in this Islamic bank would not be risky</li> <li>2. I think that opening a term deposit account in the Islamic bank would lead to financial risk (reversed)</li> <li>3. Given the potential expenses associated with the opening of the term deposit account in the Islamic bank, the overall risk is very substantial</li> </ol>	Agarwal and Teas (2001)
Perceived value	<ol style="list-style-type: none"> <li>1. The payment of profit sharing is fully justified</li> <li>2. The return of the Islamic bank term deposit is good for the expense it costs</li> <li>3. The total cost is reasonable</li> </ol>	Roig <i>et al.</i> (2006)
Intention to invest in Islamic bank term deposits	<ol style="list-style-type: none"> <li>1. I am interested in opening an Islamic bank term deposit account</li> <li>2. I am interested in opening an Islamic bank term deposit account in the future</li> <li>3. I will open an Islamic bank term deposit account someday</li> <li>4. I would like to open an Islamic bank term deposit account</li> <li>5. I will definitely recommend Islamic bank term deposits to others</li> </ol>	Amin <i>et al.</i> (2011)

**Table 1.**  
Measurement of  
items

#### 4. Analysis

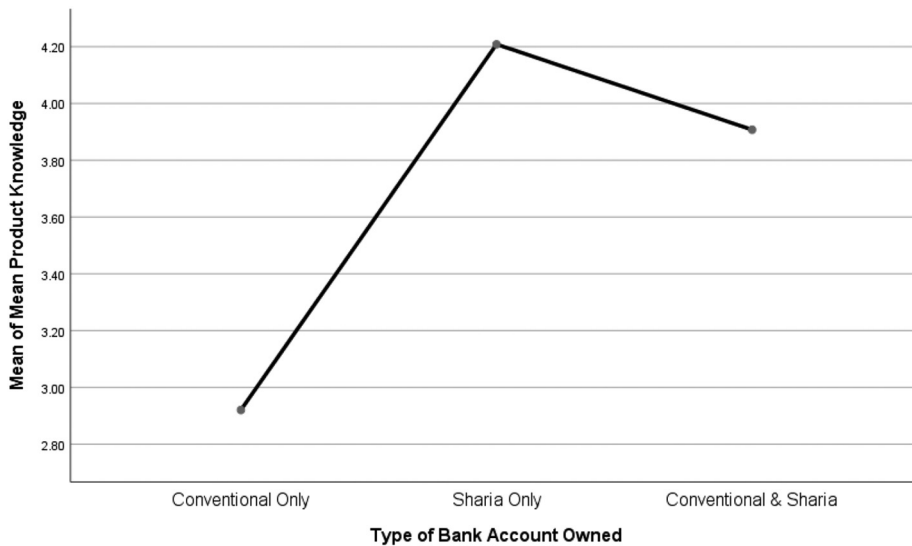
Before the researcher conducted the hypotheses testing using structural equation modeling, an ANOVA was conducted to examine whether there were any significant differences based on the respondent account ownership, which was classified into three types: conventional account only, *Sharia* account only and mixed account.

Based on Figure 2, the conventional only account holder had the lower product knowledge (mean = 2.9189), followed by the mixed account holder (mean = 3.9225). The *Sharia* only account holder had the highest product knowledge (mean = 4.0283) (Figure 3).

In term of perceived quality, there are no significant differences found in term of perceived quality among the different account holders. The mixed account holders have the highest perception of the perceived quality of the Islamic term deposits (mean = 4.4930), followed by *Sharia* only account holders (mean = 4.4424) and conventional only account holders (mean = 4.2200). The higher perceived product quality of the Islamic banks gives a

Variable	Category	Frequency	(%)
Marital status	Single	104	47.9
	Married	106	48.8
	Widow/Widower	7	3.3
Education	< Diploma	69	31.7
	Bachelor's degree	84	38.7
	Master's degree	47	21.7
	Doctoral degree	17	7.8
Family income	1-24.9m	170	78.34
	25-49.9m	25	11.5
	50-74.9m	14	6.5
	75-100m	6	2.8
	>100m	2	0.9
Gender	Male	91	41.9
	Female	126	58.1
Account ownership	Conventional only	70	32.3
	<i>Sharia</i> only	33	15.2
	Mixed	114	52.5
	Total	217	100.0

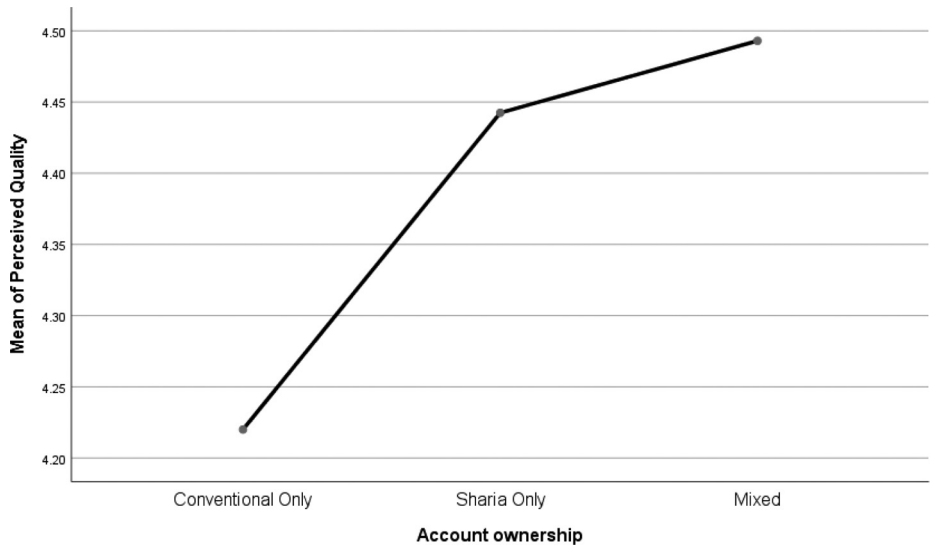
**Table 2.**  
Demographic profile



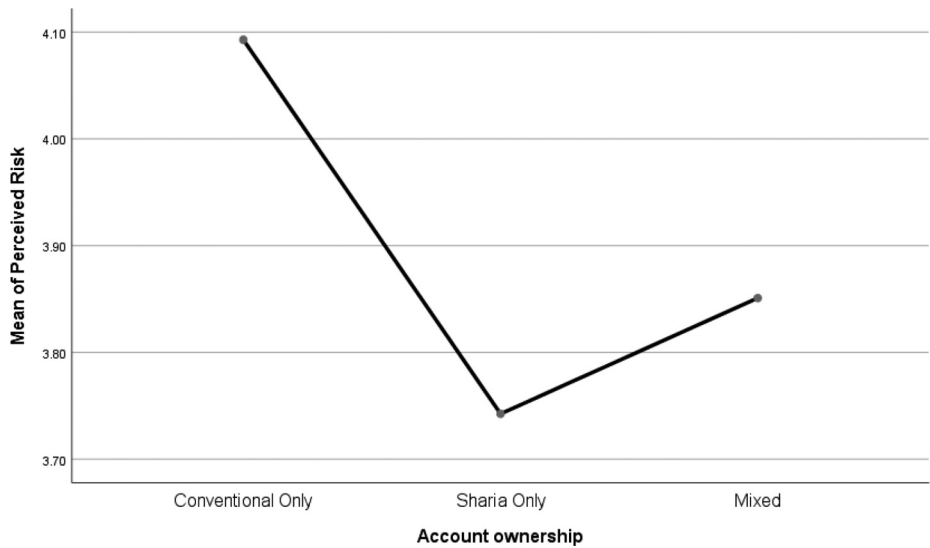
**Figure 2.**  
Product knowledge based on type of bank account

positive signal to the Islamic banks because the mixed account owners' perception must be based on the objective comparison between the conventional and Islamic banks' perceived quality (Figure 4).

In term of perceived risk, the conventional only account holders perceived the Islamic term deposit as high in risk (mean = 4.0929). However, *Sharia* only account holders had the lowest risk perception (mean = 3.7424). The mixed account holder group had moderate risk



**Figure 3.**  
Perceived quality based on type of bank account



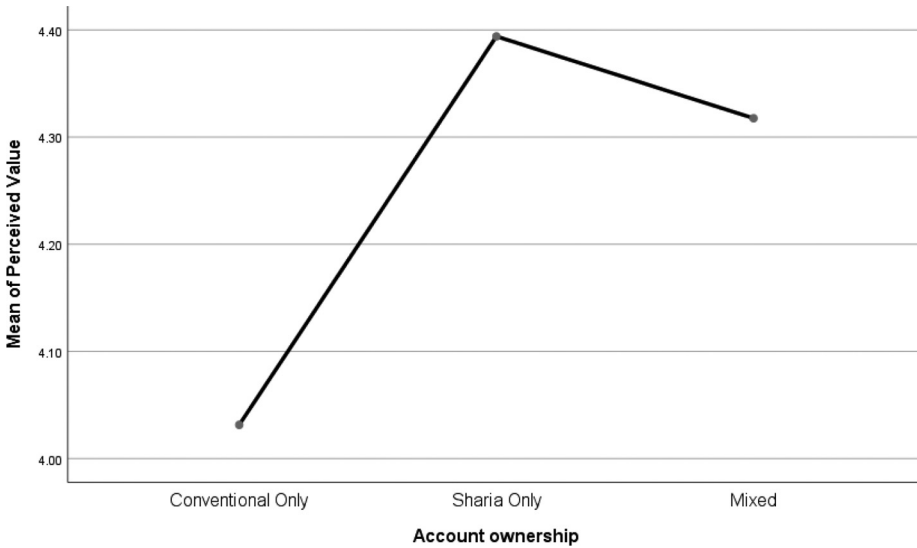
**Figure 4.**  
Perceived risk based on type of bank account

perception regarding the Islamic bank term deposit (mean = 3.8509). The low risk perception about the Islamic bank term deposit products by *Sharia* only account holders may indicate that they have higher product knowledge regarding the revenue sharing concept attached to the product, indicating that they are aware that there is no risk of loss in the term deposit investment.

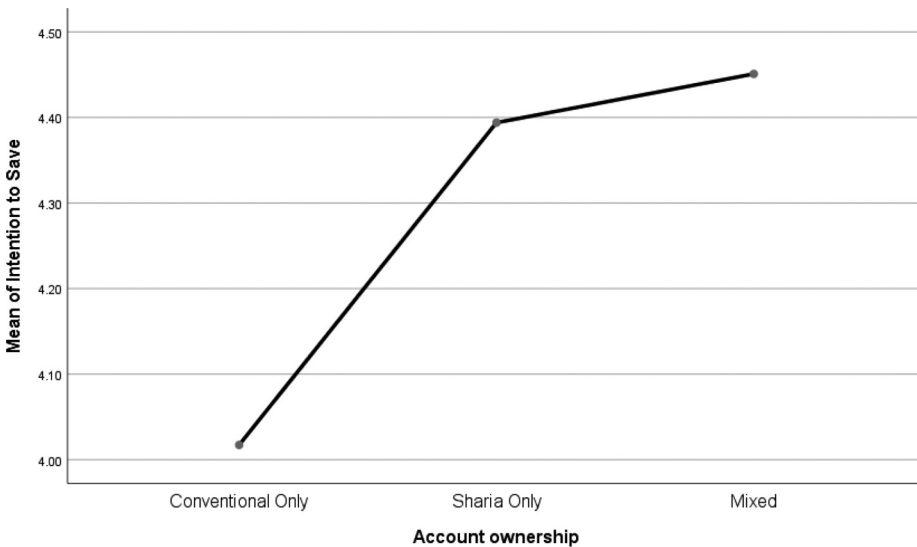
As shown in [Figure 5](#), *Sharia* only account holders have the highest perceived value (mean = 4.3175), followed by the mixed account holders (mean = 4.3175). The lowest perceived value is found among conventional-only account holders (mean = 4.0314).

Based on Figure 6, we can see that the highest intention to invest in the Islamic bank term deposit was significantly influenced by the current type of account owned by the respondent. Mixed account holders had the highest intention to invest in Islamic bank term deposit (mean = 4.4509), followed by *Sharia* only (mean = 4.3939) and conventional only account holders (mean = 4.0171).

In short, as shown in Table 3, the significant differences between the three types of account holders (conventional only, *Sharia* only and mixed) lie in product knowledge, perceived value and intention to invest.



**Figure 5.**  
Perceived value based on type of bank account



**Figure 6.**  
Intention to invest based on type of bank account

Hypothesis testing was done using structural equation modeling with LISREL 8.51 (See Table 3). To ensure the goodness of fit of the model, several measures were examined. The Root Mean Square Error of Approximation (RMSEA) of the model is 0.076, which indicates a good fit. The Normed Fit Index (NFI) is 0.85, the Non-Normed Fit Index (NNFI) is 0.89, the Incremental Fit Index (IFI) is 0.91, the Root Mean Square Residual (RMR) is 0.096, the Standardized RMR is 0.071 and the Goodness of Fit Index (GFI) is 0.83, all of which indicate that the model is overall a good fit.

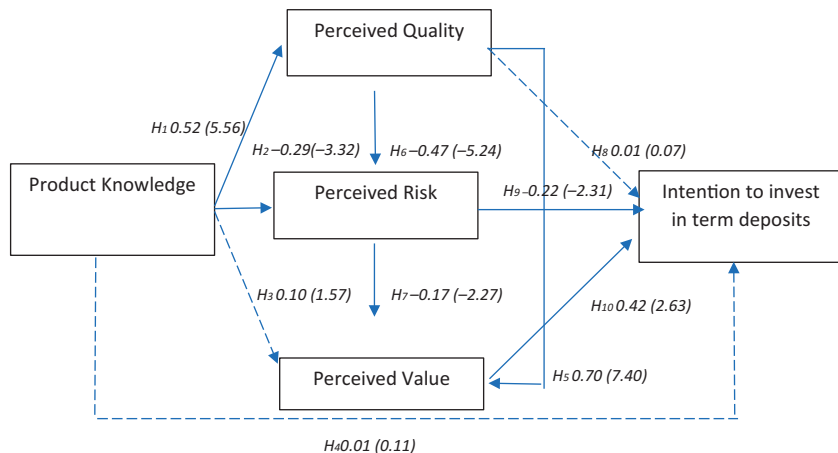
Based on Figure 7, product knowledge is reported to have a significant impact on perceived quality ( $t$ -values = 5.56; SLF = 0.52). Therefore,  $H1$  is supported. The study aligns with Blair and Innis's findings (1996) that the acquisition of knowledge supports the formation of perceived quality. In other words, Muslim customers who have more knowledge about Islamic bank term deposit products tend to have a more positive perception about the quality of the Islamic bank term deposit products.

Similar to  $H1$ ,  $H2$ , which examines the impact of product knowledge on perceived risk, is supported ( $t$ -values = -3.32; SLF = -0.29). The study support the previous study conducted by Eisingerich and Bell (2008). The negative relationship between product knowledge and perceived risk shows that the Muslim customers who have lower information about the Islamic term deposit products tend to perceive them as higher in risk compared to the Muslim consumers who are more knowledgeable about them.

In contrast, the statistical results show that both  $H3$  and  $H4$  are rejected. The results indicate that product knowledge does not directly and significantly influence the value

**Table 3.**  
ANOVA

Variable	Conventional only	Sharia only	Mixed	F-test	Sig
Product knowledge	2.9189	4.0283	3.9225	54.086	0.000*
Perceived quality	4.2200	4.4424	4.4930	2.584	0.078
Perceived risk	4.0929	3.7424	3.8509	1.258	0.286
Perceived value	4.0314	4.3939	4.3175	3.099	0.047*
Intention to invest	4.0171	4.3939	4.4509	3.424	0.034*



**Figure 7.**  
Hypothesis testing

perception ( $t$ -values = 1.57; SLF = 0.10) and intention of the customer ( $t$ -values = -5.24; SLF = -0.47) to invest in Islamic bank term deposits.

$H5$  shows that perceived quality has a positive and significant effect on perceived value ( $t$ -values = 2.31; SLF= 0.22). The acceptance of  $H5$  is supported by previous studies, which reported that perceived quality is an essential component of perceived value (Dodds and Monroe, 1985; Ruiz *et al.*, 2008). This indicates that the higher quality of the investment products and services from the Islamic bank, the higher the value perceived by customers.

However, customers will evaluate the perceived value to be lower if there is high perceived risk, which was indicated by the results of testing  $H6$  ( $t$ -values = 2.31; SLF= 0.22). The results for  $H6$  agree with the previous research by Snoj *et al.* (2004). Products that are perceived to have high quality will reduce the perceived risk in the eyes of the customers.

In addition, perceived risk is reported to have a negative and significant effect on perceived value ( $t$ -values = -2.27; SLF = -0.17), as shown by the result of testing  $H7$ . The results indicate that when Muslim customers perceive Islamic term deposits as high in risk, they tend to perceive the value of the product as low. This result agrees the study of Snoj *et al.* (2004).

Despite the significant impact of perceived quality on  $H5$  and  $H6$ , the result of  $H8$  shows that perceived quality does not have a direct impact on the intention of Muslim customers to invest in Islamic bank term deposits ( $t$ -values = 0.07; SLF = 0.01). However, perceived risk ( $t$ -values = -2.31; SLF = -0.22) and perceived value ( $t$ -values = 2.63; SLF = 0.42) are reported to have a significant impact on Muslim customers' intention to invest in Islamic bank term deposits. The  $H9$  test result supports the study of Croy *et al.* (2010), while the result of testing  $H10$  is in line with research of Kuo *et al.* (2009).

The results of the above direct relationship hypotheses testing results can be summarized as shown in Table 4.

In addition to the previous hypothesis testing, which examined the direct effects of relationships, the indirect effects were assessed and calculated as can be seen in Table 5.

As previous direct relationship between product knowledge is not significant on the intention to invest in Islamic term deposits. The indirect effect calculation, as shown in Table 5, shows that the impact of product knowledge on the Muslim consumers' intention to invest in Islamic term deposits is fully mediated via several alternative paths (path f, h, i and j in Table 5). Based on the value of the indirect effect of product knowledge on the intention to invest in Islamic bank term deposits, the highest impact of product knowledge is found via perceived risk (path f) with an indirect effect of 0.064.

Hypotheses	Path	$t$ -value	SLF	Results
$H1$	Product knowledge → Perceived quality	5.56	0.52	Supported
$H2$	Product knowledge → Perceived risk	-3.32	-0.29	Supported
$H3$	Product knowledge → Perceived value	1.57	0.10	Not Supported
$H4$	Product knowledge → Intention to invest	0.11	0.01	Not Supported
$H5$	Perceived quality → Perceived value	2.31	0.22	Supported
$H6$	Perceived quality → Perceived risk	-5.24	-0.47	Supported
$H7$	Perceived risk → Perceived value	-2.27	-0.17	Supported
$H8$	Perceived quality → Intention to invest	-0.07	-0.01	Not Supported
$H9$	Perceived risk → Intention to invest	-2.31	-0.22	Supported
$H10$	Perceived value → Intention to invest	2.63	0.42	Supported

**Table 4.**  
Direct effects

	Path	Calculations	Indirect effects
a.	Product knowledge → Perceived quality → Perceived risk	$0.52 \times -0.47$	-0.244
b.	Product knowledge → Perceived quality → Perceived value	$0.52 \times 0.22$	0.114
c.	Product knowledge → Perceived quality → Perceived risk → Perceived value	$0.52 \times -0.47 \times -0.17$	0.000
d.	Product knowledge → Perceived risk → Perceived value	$-0.29 \times -0.17$	0.049
e.	Product knowledge → Perceived quality → Intention to invest	$0.52 \times -0.01$	-0.005*
f.	Product knowledge → Perceived risk → Intention to invest	$-0.29 \times -0.22$	0.064
g.	Product knowledge → Perceived value → Intention to invest	$0.1 \times 0.42$	0.042*
h.	Product knowledge → Perceived quality → Perceived risk → Intention to invest	$0.52 \times -0.47 \times -0.22$	0.054
i.	Product knowledge → Perceived quality → Perceived value → Intention to invest	$0.52 \times 0.22 \times 0.42$	0.048
j.	Product knowledge → Perceived quality → Perceived risk → Perceived value → Intention to invest	$0.52 \times -0.47 \times -0.17 \times 0.42$	0.017

**Table 5.**  
Indirect effects

**Note:** \*Insignificant path

## 5. Discussion

This study examines the impact of product knowledge on purchase intention via the mediation of perceived quality, perceived financial risk and perceived value. The result shows that product knowledge has no direct influence on customers' intention to save in Islamic bank term deposits. The result implies that getting enough information about the Islamic bank term deposits product itself is not sufficient to attract customers to invest in Islamic bank term deposit but mediated by perceived quality and perceived risk.

Product knowledge has a significant influence on customers' intention to invest in Islamic bank term deposits via two routes. The first of these is via perceived quality, and the second is simultaneously via perceived quality and perceived risk because perceived quality has a significant influence on perceived risk but no significant impact on saving intention.

Both routes show that perceived risk may have two roles in influencing Muslim customers' intention to invest in Islamic banks. The first role is as an independent variable that directly influences Muslim customers' intention to invest in Islamic banks. The second role is as an intervening variable that mediates the relationship between product knowledge and intention to invest in Islamic bank term deposits and between perceived quality and intention.

Thus, this study theoretically contributes to the current research in Islamic marketing by providing empirical evidence that customers' product knowledge cannot work alone in influencing Muslims' intention to invest in term deposits without the involvement of two mediating variables: product quality and perceived risk.

## 6. Managerial implications, limitation and future research

The central role of perceived risk in influencing Muslim customers' intention to invest in Islamic term deposit products highlights some managerial implications of the study for



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Islamic banks. First, as the perceived risk is negatively influenced by product knowledge, customer education that provides details and comprehensive information regarding the risks inherent in term deposit products needs to be conducted. As explained earlier, the study was conducted in Indonesia, where sharing of Islamic banking returns is performed based on the revenue sharing concept rather than the PLS concept (Ismal, 2012). Thus, the investors are free from any obligation to bear risk. As a consequence, Islamic bank customers can always be expected to receive a positive and regular return (Ismal, 2012). The complexities of the Islamic bank financial products and the absence of risk in its term deposit products requires the Islamic bank to inform the depositors about the application of the revenue sharing concept instead of the profit loss sharing concept. The information is needed since the Muslim customers' cognitive, affective and conative decision-making patterns are also affected by risk minimization (Wilson and Liu, 2011). Otherwise, the customers will perceive that the investment product in the Islamic bank truly applies the PLS concept, which is much riskier and low in value than the investment in conventional banks. This information can be regularly disseminated to customers through many types of marketing communication channels such as advertising, social media and personal selling.

Second, because an additional analysis shows a different level of product knowledge, perceived quality, perceived risk and perceived value among different types of account holders, the Islamic banks should conduct more customized marketing programs to target each market segment such that the bank will have a more effective marketing program. This issue has been raised by a previous study because the product knowledge of the consumer has a changing nature over time (Bell and Eisingerich, 2007).

Third, Islam is built on the foundation of wisdom and people's welfare in this world and the afterlife (*Maqasid al-Shariah*). Since the Muslim inhabitants in Indonesia believe in life after death, they will evaluate and consider actions and benefits beyond death (Wilson and Hollensen, 2013). Moreover, Muslim customers are not only keen to partake in global consumer culture but also try to remain faithful to their Islamic values (Wilson et al., 2013). Thus, the managers of Islamic banks should put more effort into educating the customers not only about the quality, risk and value of the Islamic bank term deposit products but also how the products satisfy their needs and wants in present and afterlife.

One limitation of this research is that it only focuses on one type of Islamic bank investment product (term deposit). Some exploration on the impact of customer product knowledge and perception on Muslim customers' intention to invest in other types of Islamic bank products would be considerably beneficial for the Islamic finance and marketing literature. In addition, the research was conducted in a context where the revenue sharing concept is applied rather than the ideal PLS concept. Future studies should examine the role of product knowledge in influencing customer perception of risk, value, quality and investment intention in the context of products that fully apply the ideal PLS concept.

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