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The influence of secure image, rate and charges, and variation of product towards customer interest in selecting certain banks and the role in net-interest margin in Indonesia

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A B S T R A C T

The purpose of this paper is to prove the influence of the secure image on the interest of customers in selecting certain banks, and to explore the role of the secure image in net interest margin in Indonesia. This research uses a triangular approach which is a combination of a scientific approach and a naturalist approach. The number of questionnaires collected is 300, using simple random sampling, and the hypothesis test uses logistic regression. The results of the research include twofold: statistical test result indicates the secure image variable affects the interest of customers in choosing a particular bank; and the exploratory research can explain the role of the secure image variable in Net Interest Margin in Indonesia. The implications of this research are: first, banks and other financial institutions can improve competitiveness by enhancing secure image through enhanced security technology and maintaining the company's reputation in terms of security. Second, the role of the secure image variable in net interest margin can be explained through the application of demand-supply theory. The originality of this research is the verification of the effect of the secure image variable on customer interest in a particular bank and its role in NIM.

A B S T R A K

Tujuan dari paper ini adalah membuktikan pengaruh secure image terhadap minat nasabah memilih bank tertentu, dan mengeksplorasi peran secure image pada net interest margin di Indonesia. Penelitian ini menggunakan pendekatan triangular yang merupakan penggabungan pendekatan saintifik dan pendekatan naturalis. Jumlah kuesioner yang berhasil dikumpulkan sebanyak 300 menggunakan simple random sampling, uji hipotesis menggunakan logistic regression. Hasil penelitian meliputi dua hal: hasil uji statistik mengindikasikan variabel secure image berpengaruh terhadap minat nasabah dalam memilih bank tertentu; dan menggunakan riset eksploratori dapat diterangkan peran variabel secure image pada net interest margin di Indonesia. Implikasi dari penelitian ini adalah: pertama, bank dan lembaga keuangan lainnya dapat meningkatkan daya saing dengan meningkatkan secure image melalui peningkatan teknologi keamanan dan menjaga reputasi perusahaan dalam hal keamanan. Kedua, peran variabel secure image pada net interest margin dapat dijelaskan melalui penerapan teori permintaan-penawaran. Originalitas pada penelitian ini adalah pembuktian pengaruh variabel secure image pada minat nasabah pada bank tertentu dan perannya pada net interest margin.

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1. INTRODUCTION

Banks are the driving force of economy in industry, trade, and services. The role of banks today is not only as an institution that holds excess funds from the community and channel it to the society, but also as a measure of the health of the country's economy. The relatively low loan interest rates will encourage industry and trade. Therefore, the government has an interest in keeping the loan interest rate from banking to keep it low.

With the aim to continuously lowering the banking loan rates to remain low, Bank Indonesia as the central bank continues to lower the SBI (Indonesian bank certificate) rate. The decline in SBI rates has triggered the decline in deposit rates paid by the banks to the public, but the interest rates on loans imposed by banks do not fall as expected by the government, which causes a high net interest margin in Indonesia.

Empirical data show that some big banks that become the major players in the banking industry in Indonesia provide deposit interest rates lower than the SBI rate. Any significant interest rate difference between the deposit rate and the SBI rate can make the bank management feel comfortable to buy SBI without any risk. On the other hand, banks are reluctant to distribute credit loans to the public due to the greater risk.

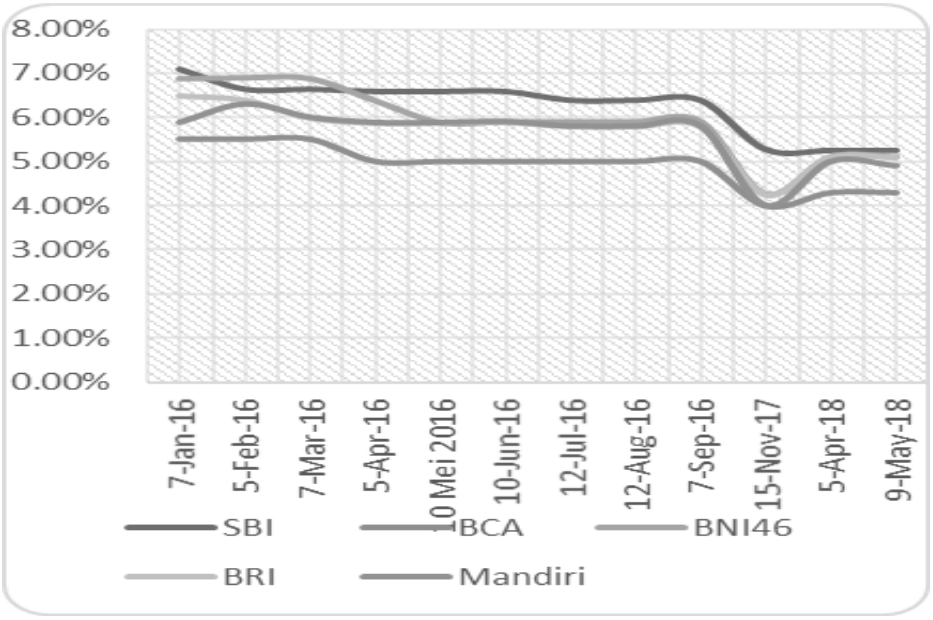

Chart 1
Comparison of Deposit Interest Rates-SBI rate
Data source: www.bi.go.id

From a customer perspective, the level of risk of depositing money in banks in Indonesia is zero because savings are guaranteed by the government. In theory, if in an investment there is a different rate of return with the same level of risk, then the investor will choose a higher rate of return. The reality in Indonesia is that customers still choose to save and deposit money in certain banks even though the bank provides the lowest interest rate among other banks with the same level of risk. The gap between theory and reality is what triggers this research because there are allegedly other things that affect the interest of customers in choosing a particular bank. This research is important from a theoretical perspective because so far there has not been much research that explains the results of statistical data processing with curves to make the explanation simpler and easier to understand. This research is also important for the theoretical development as there is a development of new variables, namely the secure image, which can also be applied to businesses other than banks.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS

Generally, banks are a risk avoider (Fungáčová & Poghosyan, 2011), but banks have to maintain their competitive position through the enhancement of customer relationship and attractiveness (Ramachandran & Chidambaram, 2012). Kasman et al

(2010) argue that the government can merge in several state banks and increase the opportunity to compete, resulting in a healthier business competition among banks because in most countries state banks are performing better than private banks (Utama & Musa, 2011). But the danger is the banking in that country will have the pattern of banking industry that is oligopoly or even monopoly (Were &Wambua, 2014).

In order to maintain the competitive position without government interference banks can increase their profits through things other than income interest (Nassar et al, 2014 and Anbar & Alper, 2011). A number of studies place customer satisfaction as a major factor in enhancing customer relationship and attractiveness (or the interest) of bank customers, but independent variables that have a significant effect on customer satisfaction vary among the research results:

Table 1
Authors Name and Independent Variables

Author(s) and Year	Independent Variables
Hossain & Leo (2009)	Tangibles
	Empathy
Ladhari et al (2011)	Empathy
	Reliability
Culiberg&Rojšek (2010)	Assurance
	Empathy
Lau et al (2013)	Empathy
Haque et al (2009)	Service quality
	Confidence in banks
	Availability of services
Awan & Shahzad Bukhari (2011)	Product features
	Service quality
Abduh et al (2012)	Physical appearance
	Cost
Poolthong & Mandhachitara (2009)	Brand effect mediated by trust
Talib et al (2012)	Customer service quality
	Product quality Service banking
	online / e-service quality
	Automated service quality

There are variations in the results of conclusions and the use of different independent variables among the studies. Therefore, this research tries to look for the common thread of existing research and apply the independent variables that match the condition of bank customers in Indonesia to examine the effect on the interest of customers in choosing a particular bank. The above independent variables are grouped and combined into four major independent variables:

- Tangibles, availability of services, product features, and physical appearance are grouped into various kinds of product offered.
- Empathy, reliability, service quality, and customer service quality are grouped into comfort and reliability.
- Assurance, confidence in banks, brand effect mediated by trust, online / e-service quality, and automated service quality are grouped into secure image.
- Cost is adopted into a new variable as rate and charges

To find out what affects the interest of customers in choosing a particular bank, this research forms the following hypotheses:

Partially:

H01: various kinds of product offered significantly does not affect to the interest of customers in choosing a particular bank.

Ha1: various kinds of product offered significantly affect the interest of customers in choosing a particular bank.

H02: comfort and reliability significantly does not affect to the interest of customers in choosing a particular bank.

Ha2: comfort and reliability significantly affect the interest of customers in choosing a particular bank.

H03: rates and charges significantly does not affect the interest of customers in choosing a particular bank.
Ha3: rates and charges significantly affect the interest of customers in choosing a particular bank.
H04: secure image significantly does not affect the interest of customers in choosing a particular bank.
Ha4: secure image significantly affects the interest of customers in choosing a particular bank.
Simultaneously:
H05: various kinds of product offered, comfort and reliability, rates and charges, and secure image significantly do not affect the interest of customers in choosing a particular bank.
Ha5: various kinds of product offered, comfort and reliability, rates and charges, and secure image significantly affect the interest of customers in choosing a particular bank.

3. RESEARCH METHOD

This study uses primary data collected through questionnaires. The population is bachelor degree and master degree students who are bank customers in West Java province and Jakarta Capital Special Region Province that have the most number and variation of students, have access to e-banking facility and automated teller machine. The reason for choosing the population is that students are generally happy to try something new like the various banking facilities offered; they are still idealistic so that they can provide good judgment; they still often change banks; they have not yet tied to a particular bank set by the company for the employees so that they are still objective to determine the bank selected. The sampling technique used is simple random sampling. This study uses a triangular approach which is a combination of a scientific approach and a naturalist approach. A causal explanatory research is used to test the effect of independent variables on dependent variable, while an exploratory research is used to explain the role of independent variables in net interest margin. An exploratory research does not require models or statistical techniques (Jogiyanto, 2013).

Table 2
Variable Operationalization

NO	VARIABLES	CONCEPT	INDICATORS	SCALE
1	Various kinds of product offered	Availability of products offered by the bank	Product variations Feature completeness	Ordinal
2	Comfort and Reliability	Comfort and reliability in transactions	ATMs are easy to find in different regions Not feel worry though money / cards swallowed in the ATM machine Feel comfortable because the bank operator is ready to help at any time Feel comfortable because the transaction process through the teller runs smoothly and professionally.	Ordinal
3	Rates and charges	The reasonable level of administrative costs and interest rates of banks	The reasonable level of monthly administration fee The reasonable level of interest on savings (deposits) offered to customers The fairness of credit interest rate charged to the customer	Ordinal
4	Secure Image	Feelings of security felt by the customer	Superior security facilities Number of customer complaints in mass media	Ordinal

The questionnaires use Likert scale. Out of the 1,000 questionnaires distributed, 300 are successfully collected and have been completely filled in. The validity test tool used in this study is Bivariate Pearson correlation; if the result is more than 0.05, then the question items are declared valid. Alpha Cronbach formula is used for reliability test; if the alpha value is more than 0.7, then the measurement scale has good reliability. The statistical test tool which is suitable to test the hypothesis here is logistic regression because the dependent variable is categorical data.

4. DATA ANALYSIS AND DISCUSSION

Measurement of reliability and variability

Reliability measurements are tested using Cronbach's alpha value and the results are as follows:

Various kinds of product offered	: 0.735
Comfort and Reliability	: 0.760
Rates and charges	: 0.773
Secure Image	: 0.764

All have value above 0.70, meaning it is statistically reliable. The results of the validity test show a significant correlation at alpha value of 0.05 (2-tailed).

Results of statistical data processing

This study uses four bank names which are the most common names that appear in the respondent's answer; the rest consists of various bank names with the percentage of about 1%. BCA is a private bank of the four favorite bank names.

Table 3
Descriptive Statistics

Gender:	**Person(s)**	**%**
Women	181	60.33%
Men	119	39.67%
Age:		
17-25	256	85.33%
26-35	12	4.00%
36-45	27	9.00%
46-60	5	1.67%
above 60	0	0.00%
Occupation:		
Students	254	84.67%
Private employees	20	6.67%
Entrepreneurs	15	5.00%
Government employees	11	3.67%
Favorite bank name:		
BCA	200	66.67%
BNI 46	41	13.67%
BRI	19	6.33%
Mandiri	18	6.00%
Various Bank	22	7.33%

Table 4
Hosmer and Lemeshow Test and Variables in the Equation for Hypothesis 1

	Step 1	
Hosmer and Lemeshow Test:		
Chi-square	1.999	
df	3	
Sig.	0.573	
Variables in the Equation		
	B	**Sig**
Variation of Product	0.599	0
Constant	-1.536	0.04

The significance value of Hosmer-Lemeshow from partially test results in the table below are above 0.05 for all hypotheses, except hypothesis 2, so the model is said to be fit and acceptable. Based on the results of the data processing below, it turns out that variable variation of product, rates and charges, and secure image partially has a significant effect on the interest of customers in choosing a particular bank.

From the simultaneous test results as in Table 4, after 4 new variables are added-2LogL, it drops from 349,955 to 325,736, meaning there is a decrease of 24,219. The value for the degree of freedom 3 with alpha 0.05 in the table critical values of the t-

distribution with the two-tailed test is 3.182. The number 24,219 is greater than 3,182 which means a significant decrease in the increment, and the addition of independent variables of various kinds of product offered, reliability, rates and charges, the secure image on model improves the model to be more fitting. The significance value of Hosmer-Lemeshow is 0.890 and since this value is above 0.05 then the model is said to be fit and acceptable.

Based on the results of data processing, it turns out that variable variation of product, rates and charges, and secure image simultaneously have significant effect on the interest of customers in choosing a particular bank. Variation of product variable has a positive effect on the interest of customers choosing a particular bank; this means the higher availability of the variety of products the bank offers, the higher the customer's interest is in the bank. The secure image variable also positively affects the interest of the customer in choosing a particular bank, which means the higher the security is from the customer perspective, the higher the customer's interest is in the bank. The rates and charges variable has a negative effect on the interest of customers in choosing a particular bank, and this means that the higher interest expense and administrative costs charged by the bank to the customer, the lower the interest of the customer in choosing the bank.

Table 5
Hosmer and Lemeshow Test and Variables in the Equation for Hypothesis 2

	Step 1	
Hosmer and Lemeshow Test:		
Chi-square	11.64	
df	5	
Sig.	0	
Variables in the Equation		
	B	**Sig**
Comfort and Reliability	0.429	0.2
Constant	-0.787	0

Table 6
Hosmer and Lemeshow Test and Variables in the Equation for Hypothesis 3

	Step 1	
Hosmer and Lemeshow Test:		
Chi-square	5.542	
df	6	
Sig.	0.476	
Variables in the Equation		
	B	**Sig**
Rates and Charges	-0.211	0.04
Constant	1.745	0.36

Table 7
Hosmer and Lemeshow Test and Variables in the Equation for Hypothesis 4

	Step 1	
Hosmer and Lemeshow Test:		
Chi-square	6.021	
df	3	
Sig.	0.111	
Variables in the Equation		
	B	**Sig**
Secure Image	0.513	0.003
Constant	-1.022	0.140

Table 8
Hosmer and Lemeshow Test for Hypothesis 5

	Step 1	Step 2	Step 3
Iteration History:			
-2 Log likelihood	350.288	349.955	349.955
Model Summary:			
-2 Log likelihood	338.544	330.992	325.736
Hosmer and Lemeshow Test:			
Chi-square	1.999	6.785	3.622
df	3	8	8
Sig.	0.573	0.56	0.89

Table 9
Variables in the Equation for Hypothesis 5

	Step 1	
	B	**Sig**
Variation of Product	0.599	0.001
Constant	-1.536	0.043
	Step 2	
	B	**Sig**
Variation of Product	0.813	0
Rates and Charges	-0.506	0.008
Constant	-0.643	0.437
	Step 3	
	B	**Sig**
Variation of Product	0.64	0.003
Rates and Charges	-0.637	0.002
Secure Image	0.481	0.023
Constant	-1.327	0.139

Table 10
Classification Table for Hypothesis 5

Observed			Predicted		
			Preferred Bank		Percentage Correct
			0	1	
Step 1	Preferred Bank	0	5	76	6.2
		1	2	217	99.1
	Overall Percentage				74.0
Step 2	Preferred Bank	0	8	73	9.9
		1	3	216	98.6
	Overall Percentage				74.7
Step 3	Preferred Bank	0	11	70	13.6
		1	3	216	98.6
	Overall Percentage				75.7

For the state banks, the preferred predictions (code 0) are 81 banks with the observation result is 11 banks then the classification accuracy is 13.6%, while for private banks the preferred prediction (code 1) is 219 banks with the observation result 216 banks then the classification accuracy is 98.6%. Overall classification accuracy is 75.7%.

From the results of the respondents' assessment, variation of product, rates and charges, and secure image are attributed to private banks rather than linked to state banks. This means that respondents perceive the variation of product and secure image of private banks better than state banks; on the other hand, the rates and charges charged by private banks are higher than those of

government banks. This finding is in contrast to Utama& Musa's (2011) conclusions that state banks are performing better than private banks.

The relationship between secure image with rates and charges

The discount rate is also known as required return because an investment should be accepted if it generates a return above what is required. The discount rate is also known as the cost of capital because an investment should earn enough to pay its investors of capital (Ross et al, 2010).

Under the CAPM, the expected return on the stock can be written as: Rs = RF + β (RM - RF). Since β represents risk and risk as opposed to a secure image, then the risk = minus (-) secure image. If the secure image is denoted in i (iota), then β = - i. Thus, the new equation can be written as: R = RF - i (RM - RF). The curves can be formed as follows:

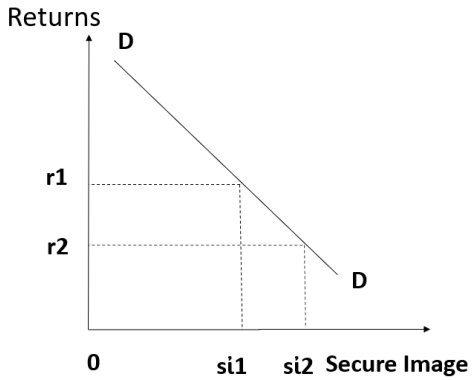

Diagram 1
Secure Image - Rate of Return Curve from Depositors Perspective

The secure image - rate of return curve describes the following:

1. Depositors have risk avoider nature.
2. When a security image (secure image) of a financial institution is low, the depositor will request a higher rate of return as compensation. (si1 - r1)
3. When a secure image of an institution increases to si2, the depositor is willing to accept a lower rate of return as compensation. (si2 - r2)

Secure image from financial services provider perspective

Developing a security level requires a fee. The higher the level of security provided, the higher the cost. Similarly, the security image (secure image) that must be managed and maintained on a continuous basis will require a higher cost.

Costs borne by the company are cost of capital. Based on the argument, one equation can be formed: cost of capital = i.Si. Because cost of capital = required rate of return, it can be written: r = i.Si The curves can be formed as follows:

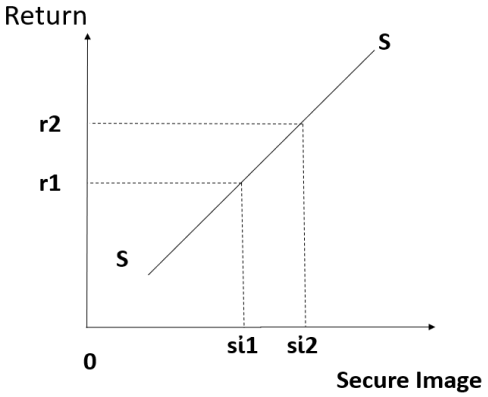

Diagram 2
Secure Image - Rate of Return Curve from the Perspective of Bank Managers

The secure image - rate of return curve describes the following:

1. Financial service provider institutions bear the cost of capital.
2. Security level is directly proportional to the cost of capital borne by the company.
3. When the secure image of an institution increases from si1 to si2, the firm will set a higher rate of return as compensation (from r1 to r2).

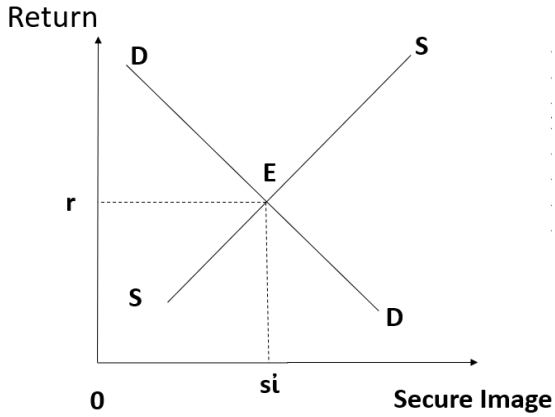

Diagram 3
Equilibrium Secure Image – Rate of Return Curve

For certain secure image levels provided by bank, depositors will be willing to keep the money in the bank with the rate of return offered by the bank. In this case there is equilibrium between the provider of the security services (suppliers) and the requesting security services (demander).

Relationship between secure image, variation of product with net interest margin.

The ceiling rate set by the government in the case of Indonesia is the SBI rate. The available data illustrates that the deposit interest rate is always lower than the SBI rate. In this case, it is suspected that the national bank can enjoy interest rate difference between the banks giving deposit interest to the savers with the interest rate the bank receives from SBI at risk free. It is alleged that banks prefer to deposit their funds in SBI instead of distributing them to creditors because the funds lent to creditors are clearly high risk. Moreover, the business climate in Indonesia is currently considered unfavorable by entrepreneurs due to political instability and the instability of labor wage rates.

When the government sets a lower SBI rate, the bank can respond in two ways. The first way:

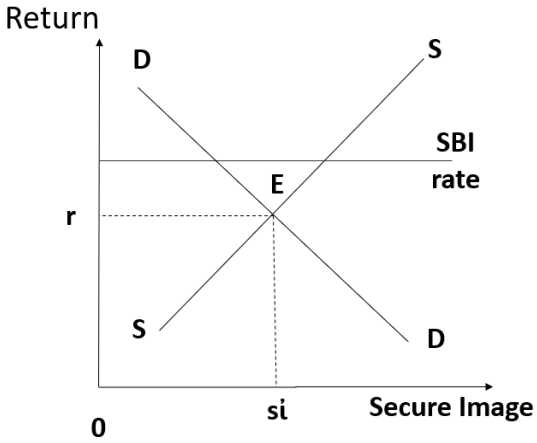

Diagram 4
Secure Image – Rate of Return Curve with Ceiling Rate

Banks that provide budgets for improving security technologies will increase the use of capital to replace labor (from labor intensive to capital intensive) so that the supply curve will slop. In this case a new equilibrium will be established where the secure image will increase and the rate of return demanded by the depositors will decrease. For example: the use of mobile banking on smartphones and computers that will increase the secure image on depositors due to the higher level of security. On the other hand, the cost incurred by suppliers will be smaller with an increasing number of customers because computer technology can handle millions of customers 24 hours without the need of overtime pay for its fixed cost. (This sluggish capital intensification curve is adopted from the Degree of Operating Leverage).

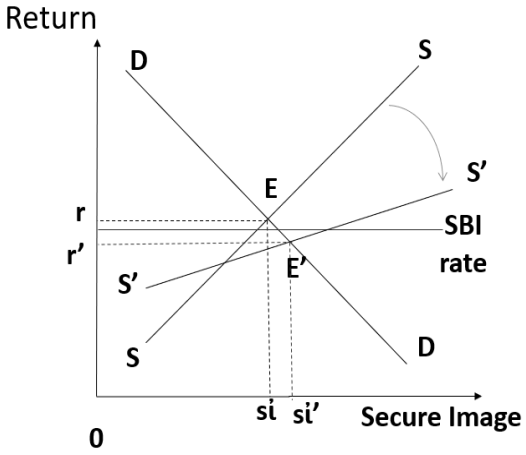

Diagram 5
Rotating of Secure Image – Rate of Return Curve

The second way:
A bank that provides a budget to finance innovation will experience a leap in the variation of product so that the supply curve will shift to the right. This will cause the customer (depositors) to accept a lower interest rate because the variation of product provides a good service image. A good service image will provide a positive signal that will provide a higher secure image.

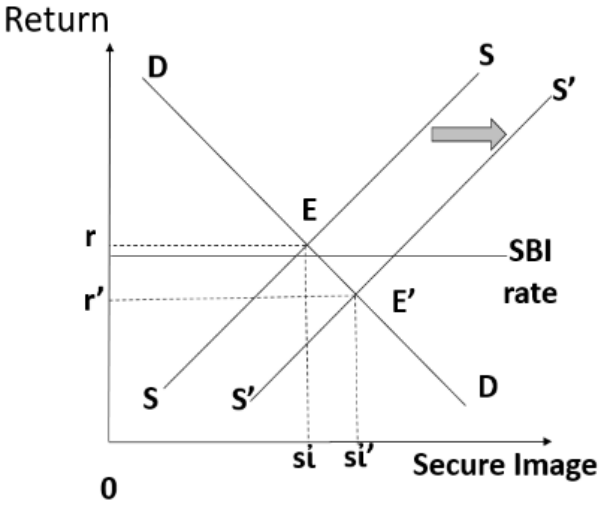

Diagram 6
Shifting of Secure Image – Rate of Return Curve

If a bank improves its (capital-intensive) security technology while boosting its innovation the bank will enjoy an even larger interest rate spread because the SS curve will be shifting while rotating into S'S'. In this case banks can reduce operating costs so as to increase their profits. This is in line

with the results of Nassar et al (2014) research and Anbar & Alper (2011) research which state that banks can increase their profits through other than interest income.

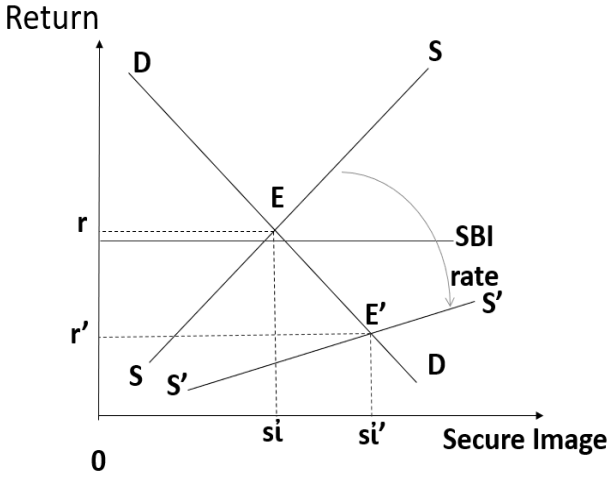

Diagram 7
Shifting and Rotating of Secure Image – Rate of Return Curve

As shown on the curves, it can be seen that the SBI rate as ceiling rate set by the government does not encourage the banks to lower their credit interest rates because certain banks can reduce their operational costs through shifting or rotating their supply curves and enjoying the difference between the interest rate given in depositors with a risk-free SBI rate. This is because basically the bank is risk averse, and this is in line with the conclusion drawn by Fungáčová & Poghosyan (2011). On the other hand, if in a country there are only a handful or even only one bank that can do so, the banking in that country will have the pattern of banking industry that is oligopoly or even monopoly. The situation in Indonesia is similar to the situation in Kenya in Were &Wambua (2014) research.

5. CONCLUSION IMPLICATION, SUGGESTION, AND LIMITATION

Conclusion

The phenomenon that occurs in Indonesia—that the bank's customers still deposit money in certain banks even though the bank provides the lowest interest rates among other banks—can be explained by the difference in the quality of services provided by the bank. The respondents perceive variation of product and secure image of private banks are better than the state banks, but on the other hand the rates and charges charged by private banks are higher than those of government banks.

The relationship between secure image, rate and charges, variation of product with the interest of customers in choosing a particular bank can be explained by causal explanatory research using logistic equation model. On the other hand, the relationship between secure image, rate and charges, variation of product with SBI rate can be explained by exploratory research. The diagram that produce by this exploratory research can also explain the problem of net interest margin in Indonesia. The SBI rate as the ceiling rate set by the government will not encourage banks to lower their lending rates because certain banks can reduce their operational costs through shifting or rotating their supply curves and enjoy the difference between the deposit rate and the risk-free SBI rate.

Implication

Theoretical implications: the secure image variable significantly influences the interest of the customers in choosing a particular bank, and this variable can also explain its relationship with the SBI rate through the adoption of demand-supply theory.

Managerial implications: banks and other financial institutions can enhance competitiveness by enhancing secure image through enhanced security technologies and maintaining the company's reputation in terms of security.

Suggestion

To manage the net interest margin, the government can implement the following policies: Increase variation of product and security technology to improve secure image in state banks in the country so that consumers (customers) can choose various banks that have equal services. Reevaluate the effectiveness of bank certificate rate designation as an instrument that regulates bank interest rates.

Limitation

Due to limited funds and time, the population of this study only covers the provinces of DKI Jakarta and West Java province. For further research, the study can be done in all provinces in Indonesia.

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