

The Influence of Product and Service Innovation on Customer Decisions to Choose People's Economic Banks

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ABSTRACT

The development of the banking industry, particularly the Rural Bank (BPR) sector, has increasingly been driven by the demand for product and service innovations that can efficiently and effectively meet customers' evolving needs. Such innovation has become an important factor influencing customers' decisions to choose BPRs as institutions for saving and obtaining loans. This study aims to analyze the influence of product and service innovation on customers' decisions to use BPR services. A quantitative approach with a survey method was employed. The data were collected through a structured questionnaire using a five-point Likert scale and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS. The findings indicate that product innovation has a positive and significant effect on customer trust, with a path coefficient of 0.510, a t-statistic of 6.217, and a p-value of 0.000. However, product innovation does not have a significant direct effect on customer decisions, with a path coefficient of 0.048, a t-statistic of 0.529, and a p-value of 0.597. Customer trust has a positive and significant effect on customer decisions, with a path coefficient of 0.669, a t-statistic of 6.901, and a p-value of 0.000. Furthermore, the indirect effect of product innovation on customer decisions through customer trust is positive and significant, with a path coefficient of 0.341, a t-statistic of 4.731, and a p-value of 0.000. These findings indicate that customer trust plays an important mediating role in the relationship between product innovation and customer decisions. Therefore, BPRs should strengthen product and service innovation while simultaneously building customer trust to improve their competitiveness and sustain customer relationships in an increasingly digital and competitive banking environment.

Keywords: Product Innovation, Customer Trust, Customer Decision, Rural Banks (BPR).

I. Introduction

The financial services industry is undergoing substantial transformation as technological development, changing customer expectations, and increasing competition reshape the way financial institutions design and deliver their products and services. Customers increasingly expect financial services that are not only reliable but also accessible, efficient, convenient, secure, and responsive to their changing needs. In this environment, innovation has become an important strategic capability for financial institutions because it enables them to create greater value for customers while maintaining competitiveness. The importance of innovation is particularly relevant for rural banks, which operate close to local communities and

traditionally serve micro, small, and community-based economic activities. In Indonesia, Rural Banks or Bank Perekonomian Rakyat (BPR) have an important role in expanding access to financial services, particularly for micro and small businesses and communities in their respective regions. However, BPRs face a changing competitive environment. The Financial Services Authority (Otoritas Jasa Keuangan [OJK]) identifies technological development, changing customer behavior and expectations, and increasingly intense competition in the micro and small lending segment as major challenges for the BPR and BPRS industry. In response, OJK's *Roadmap for the Development and Strengthening of the BPR and BPRS Industry 2024–2027* places strengthening competitiveness and accelerating digitalization among its four main strategic pillars.

Digital transformation has consequently created both opportunities and challenges for BPRs. Digital products and services can improve accessibility, transaction efficiency, and customer convenience, but their implementation also requires adequate technological infrastructure, human resources, governance, and risk management. OJK emphasizes that digitalization in BPRs should extend beyond basic technological adoption to include the development of digital products and services while maintaining adequate information-technology governance and security. Thus, innovation in BPRs should not be understood merely as the introduction of new technology. It should also reflect the ability of banks to develop products and services that provide meaningful value and correspond to customers' needs. From the customer perspective, however, the availability of an innovative product does not automatically lead to adoption or a decision to choose a particular bank. Innovation must first be perceived as useful, compatible with customers' needs, understandable, and sufficiently trustworthy. This argument is consistent with the Diffusion of Innovations theory, which explains that the adoption of an innovation is influenced by characteristics such as relative advantage, compatibility, complexity, trialability, and observability (Rogers, 2003). Innovations perceived as more advantageous, compatible with existing needs and experiences, easier to understand, and whose benefits can be observed are more likely to be adopted. In the context of financial services, these characteristics are particularly important because customers must consider not only functional benefits but also the perceived reliability and risk associated with entrusting their financial resources to an institution.

Empirical studies have demonstrated the importance of innovation and customer-related factors in the BPR context. Puspitasari and Srimindarti (2014), for example, found that factors associated with relative advantage, compatibility, ease of use, result demonstrability, visibility, and trialability were relevant to perceptions of information-technology innovation adoption in rural banks. More recent research also shows that product innovation and customer trust are relevant to customer responses in BPRs. Ekawaty and Kusnawan (2025) found that product innovation and customer trust significantly influenced customer satisfaction at a BPR in Indonesia. Similarly, research on BPR customers in Makassar demonstrated that service quality, commitment, and customer satisfaction are significantly associated with customer retention, with commitment and satisfaction functioning as mediating mechanisms. These findings indicate that customer responses to BPR services cannot be explained solely by the presence of innovative products; relational and psychological factors also matter.

The importance of trust becomes even more evident when customer decisions involve financial products. Recent evidence from rural banks in West Java indicates that trust and service quality contribute to customers' saving decisions, while digital convenience has become increasingly important for younger customers. At the same time, digital transformation may produce a paradox for BPRs because technological innovation can improve perceived usefulness while potentially weakening the interpersonal relationships that have traditionally characterized rural banking. Therefore, an important question is whether product innovation directly encourages customers to choose BPR services or whether its influence operates partly through the development of customer trust. This issue is particularly relevant in community-based economic environments such as Pondok Gede Market, Bekasi, where traders represent potential users of financial services for savings, working-capital management, and business financing. The research setting therefore provides an appropriate context for examining how customers perceive product innovation and how such perceptions relate to trust and financial decisions. The existing literature has examined BPR innovation in relation to technology adoption, customer satisfaction, loyalty, retention, and saving decisions. However,

there remains limited empirical evidence that simultaneously examines product innovation, customer trust, and customer decision-making in a single explanatory model, particularly among market-based customers. This gap is important because innovation may have a different effect on customer decisions when customers must first develop sufficient confidence in the institution and its products.

Accordingly, this study examines the influence of product innovation on customer decisions to choose BPR services, while considering customer trust as an intervening mechanism. The study aims to determine whether product innovation directly influences customer decisions and whether it contributes to such decisions indirectly through customer trust. By addressing this relationship, the study contributes empirical evidence to the literature on innovation and customer behavior in rural banking and provides practical implications for BPR managers seeking to develop products and services that are not only innovative but also capable of strengthening customer confidence and encouraging customer choice. The findings are expected to support BPRs in designing customer-oriented innovation strategies that balance technological development, functional value, and relationship-based trust in an increasingly competitive financial-services environment.

II. Literature Review and Hypothesis Development

2.1. Diffusion of Innovations Theory

The Diffusion of Innovations (DOI) theory provides a relevant theoretical foundation for explaining how customers perceive and respond to new products and services. Rogers (2003) defines an innovation as an idea, practice, or object perceived as new by an individual or other unit of adoption. Diffusion refers to the process through which an innovation is communicated through particular channels over time among members of a social system. Thus, adoption is not determined solely by the existence of an innovation but also by how potential users perceive its characteristics and benefits. Rogers (2003) identifies five perceived attributes that influence the rate of innovation adoption: relative advantage, compatibility, complexity, trialability, and observability. Relative advantage refers to the extent to which an innovation is perceived as better than an existing alternative. Compatibility concerns the extent to which an innovation is consistent with users' values, previous experiences, and needs. Complexity refers to the degree to which an innovation is perceived as difficult to understand or use. Trialability represents the extent to which an innovation can be experimented with before full adoption, whereas observability refers to the extent to which the results or benefits of an innovation can be observed by others. Innovations perceived as having greater relative advantage, compatibility, trialability, and observability and lower complexity tend to be adopted more rapidly.

The DOI perspective is particularly relevant to financial services because banking innovations often require customers to change established financial behaviors. Digital savings products, electronic payment facilities, mobile banking, and technology-supported credit services are examples of innovations whose adoption depends on customers' perceptions of usefulness, compatibility, convenience, and reliability. Recent research continues to demonstrate the applicability of DOI characteristics to contemporary digital innovations, including software and financial technologies. A recent validation study found that relative advantage, compatibility, complexity, trialability, and observability remain empirically meaningful characteristics for explaining the adoption of technology-based innovations. In the context of BPRs, DOI theory suggests that product innovation will be more likely to generate favorable customer responses when customers perceive that the innovation provides meaningful benefits, fits their financial needs, is relatively easy to understand and use, can be experienced with limited risk, and produces visible benefits. Therefore, DOI provides the theoretical basis for positioning product innovation as an antecedent of customer responses toward BPR services.

2.2. Product Innovation in Banking Services

Product innovation refers to the development, improvement, or introduction of products that provide new or enhanced value to users. In the banking context, product innovation can include the introduction of new savings products, financing schemes, payment facilities, digital banking services, and other financial features designed to respond to changing customer needs. For BPRs, product innovation is strategically important because the industry operates in an increasingly competitive financial environment. BPRs must compete not only with conventional commercial banks but also with digital financial services and other financial-technology providers. OJK's *Roadmap for the Development and Strengthening of the BPR and BPRS Industry 2024–2027* identifies strengthening competitiveness and accelerating digitalization as important strategic directions for the development of the industry. Consequently, innovation should be directed toward products and services that generate customer value rather than merely introducing technology for its own sake.

From the DOI perspective, the value of product innovation depends on customers' perceptions of the innovation rather than simply on its technical characteristics. A new banking product may be technologically sophisticated but generate limited customer adoption if customers do not perceive clear benefits, consider it incompatible with their needs, or find it difficult to use. Conversely, relatively simple innovations may be more readily accepted when they provide clear functional benefits and correspond closely to customers' financial activities. Empirical evidence also supports the importance of product innovation in the BPR context. Ekawaty and Kusnawan (2025), examining customers of PT BPR Magga Jaya Utama, found that product innovation had a positive and significant effect on customer satisfaction. Their findings indicate that product innovation can contribute to favorable customer evaluations of BPR services, particularly when combined with service efficiency and customer trust. However, the relationship between innovation and customer behavior should not automatically be interpreted as a direct relationship. Financial services involve relatively high levels of perceived risk because customers entrust financial resources and personal information to the institution. Consequently, an innovative product may first influence customers' perceptions of the institution before ultimately affecting their decision to use the service. This possibility highlights the importance of customer trust as a mechanism linking innovation with customer decision-making.

2.3. Customer Trust in Banking

Customer trust is a central relational construct in financial services because banking transactions involve uncertainty, information asymmetry, financial risk, and the expectation that the service provider will fulfill its promises. Trust can be understood as the customer's willingness to rely on an institution based on the expectation that the institution is reliable, competent, honest, and capable of protecting the customer's interests. The role of trust becomes particularly important when customers evaluate new or innovative financial products. Innovation may create uncertainty because customers have limited prior experience with the new product. Under such conditions, customers may rely on their confidence in the institution to reduce perceived uncertainty and risk. Therefore, an innovative product is more likely to generate favorable responses when customers believe that the bank is capable of delivering the promised benefits and managing the associated risks.

Previous research supports the importance of trust in banking decisions. Ilham and Haris (2025), for example, found that customer trust had a significant positive effect on customers' decisions to use BSI Mobile for distributing ZIS. Their findings indicate that trust and ease of use can become important determinants of customers' decisions to use technology-based banking services. Similarly, research on banking services in Indonesia has shown that trust is an important factor associated with customers' behavioral responses toward banking products and services. Within BPRs, trust may be particularly significant because the relationship between the bank and its customers is often closely connected to local economic and community activities. Product innovation can communicate that a BPR is responsive to changing customer needs, but the

innovation must also be accompanied by confidence in the institution's reliability and service capability. Thus, product innovation may contribute to trust by signaling that the BPR is capable of adapting to customer needs and providing relevant financial solutions. Recent BPR evidence is consistent with this argument. Ekawaty and Kusnawan (2025) found that customer trust had a significant positive effect on customer satisfaction at a BPR, alongside product innovation and transaction speed. This suggests that innovation and trust should not be viewed as independent dimensions of the customer experience. Rather, innovation can contribute to a broader evaluation of the institution, while trust can shape how customers translate that evaluation into subsequent behavioral decisions.

2.4. Customer Decision to Use Banking Services

Customer decision refers to the process through which customers evaluate alternatives and ultimately decide whether to choose, use, or continue using a particular financial service. In banking, the decision may involve choosing an institution for savings, financing, payment services, or other financial activities. The decision is influenced by the perceived benefits of the product, service quality, accessibility, perceived risk, reputation, trust, and compatibility with customers' needs. Unlike decisions involving ordinary consumer goods, banking decisions often involve longer-term relationships and greater perceived consequences. Customers must consider whether the institution can protect their funds, provide reliable services, maintain confidentiality, and fulfill its financial commitments. Consequently, trust may become a particularly important determinant of customer decisions.

Empirical studies in banking support this proposition. Research examining customer decisions to use Islamic banking products found that trust significantly influenced customers' decisions, indicating that confidence in the financial institution can become a decisive factor in product selection. Similarly, research on banking service purchase intentions has emphasized the role of trust in shaping customers' behavioral responses to banking services. Therefore, customer decision in the present study is conceptualized not simply as an immediate response to the existence of an innovative product but as a behavioral outcome that may emerge after customers develop sufficient confidence in the institution and its offerings.

2.5. Product Innovation and Customer Trust

The relationship between product innovation and customer trust can be explained through both DOI theory and the characteristics of financial services. Innovation that provides clear benefits, corresponds to customer needs, and is relatively easy to understand can reduce uncertainty associated with a new product. When customers perceive that the bank's innovation is useful and responsive to their needs, they may develop more favorable perceptions of the bank's competence and reliability. From a DOI perspective, relative advantage and compatibility are particularly important because customers evaluate whether an innovation provides meaningful improvement over existing alternatives and whether it fits their existing needs and experiences. Rogers (2003) emphasizes that innovations perceived as advantageous and compatible tend to be adopted more rapidly. In banking, these perceptions can also strengthen confidence in the institution because a relevant and useful product may signal that the institution understands and responds to customer needs. Empirically, the positive association between product innovation and customer evaluations has been observed in the BPR context. Ekawaty and Kusnawan (2025) reported that product innovation significantly influenced customer satisfaction at a BPR, while customer trust also demonstrated a significant positive relationship with satisfaction. These findings provide a basis for expecting product innovation to contribute to positive customer perceptions, including trust. Accordingly, this study proposes:

H1: Product innovation has a positive and significant effect on customer trust.

2.6. Customer Trust and Customer Decision

Trust is expected to influence customer decisions because financial transactions require customers to accept a degree of uncertainty and rely on the institution's future performance. A customer who believes that a bank is reliable, honest, competent, and capable of protecting their interests is more likely to consider the bank a credible choice. The relationship is particularly relevant for BPR customers because decisions to save or obtain financing involve continuing interaction with the financial institution. Trust can therefore function as a mechanism that reduces perceived uncertainty and increases customers' willingness to select the institution.

Recent empirical research provides support for this relationship. Ilham and Haris (2025) found that trust significantly and positively influenced customers' decisions to use BSI Mobile. Likewise, Nurliana (2025) reported that customer trust significantly influenced decisions to use Wadiah savings products at Bank Syariah Indonesia. These findings indicate that trust is not merely an attitudinal outcome but can translate into concrete customer decisions. Thus, the second hypothesis is formulated as follows:

H2: Customer trust has a positive and significant effect on customer decisions to use BPR services.

2.7. Product Innovation, Customer Trust, and Customer Decision

Although product innovation may provide functional benefits, customers may not immediately translate those benefits into a decision to use a banking service. The financial nature of banking products means that customers must also evaluate whether the institution can reliably deliver the promised benefits. Therefore, trust can function as an intervening mechanism between product innovation and customer decision. This proposition is theoretically consistent with DOI theory because the perceived attributes of an innovation influence customers' evaluation of the innovation and their subsequent adoption process. At the same time, banking research demonstrates that trust is an important determinant of behavioral decisions. Recent evidence in Islamic banking also demonstrates that trust can serve as a central mechanism through which external information affects consumer decision-making. Supiyadi et al. (2026), for example, found that electronic word-of-mouth significantly increased consumer trust but did not directly influence purchase intention; the behavioral effect operated through trust. This finding is relevant to the present research because it demonstrates that a positive stimulus does not necessarily translate directly into a behavioral decision. Instead, the stimulus may first influence a customer's internal evaluation, such as trust, which subsequently affects the final decision. Therefore, the present study extends previous research by examining whether product innovation contributes to customer decisions through customer trust in the BPR context. Based on this theoretical and empirical reasoning, the following hypothesis is proposed:

H3: Customer trust mediates the relationship between product innovation and customer decisions to use BPR services.

III. Research Method

3.1. Research Design and Setting

This study employed a quantitative research approach with an explanatory design. The explanatory approach was selected because the study sought to examine the relationships among product innovation, customer trust, and customer decisions in choosing and using Rural Bank (BPR) services. Specifically, the study examined whether product innovation influences customer decisions directly and indirectly through customer trust. The research was conducted among traders at Pondok Gede Market, Bekasi City, Indonesia. The research setting was selected because market traders represent economically active customers who

commonly require financial services for savings, working capital, business transactions, and access to financing. Data collection was conducted in April 2025 through a structured questionnaire. The conceptual model consisted of three latent constructs: Product Innovation (X) as the exogenous construct, Customer Trust (Y) as the mediating construct, and Customer Decision (Z) as the endogenous construct. The structural model was specified to examine the direct relationship between product innovation and customer trust, the relationship between customer trust and customer decision, and the direct and indirect relationships between product innovation and customer decision.

3.2. Population and Sample

The respondents were traders operating at Pondok Gede Market, Bekasi City. The original research document identifies the research respondents as market traders but contains an inconsistent description of the population in the methodology section. Therefore, for the purposes of this article, the population is defined according to the actual research setting and respondent characteristics reported in the results section, namely traders at Pondok Gede Market. A total of 100 respondents participated in the study. Respondents represented several types of trading activities, including vegetables, meat, fruit, clothing, furniture, and gold. The respondents were selected based on their relevance to the research context as customers or potential users of banking services. The sample size was considered adequate for the PLS-SEM analysis used in this study. Nevertheless, recent methodological literature recommends determining PLS-SEM sample requirements using statistical power considerations rather than relying exclusively on the traditional ten-times rule. PLS-SEM is particularly appropriate when the research objective emphasizes explanation and prediction and when the proposed model contains latent variables and mediation relationships (Hair & Alamer, 2022; Sarstedt et al., 2022).

3.3. Data Collection and Research Instrument

Primary data were collected using a structured questionnaire. The questionnaire employed a five-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree. The instrument was designed to measure three principal constructs: product innovation, customer trust, and customer decision. Product Innovation (X) was measured through five indicators representing customers' perceptions of the bank's ability to provide new or improved products, develop relevant product features, provide competitive advantages, respond to customer needs, and offer innovative financial solutions. Customer Trust (Y) was measured through seven indicators reflecting customers' confidence in the bank's reliability, competence, honesty, security, ability to fulfill its commitments, and willingness to place financial interests in the bank. Customer Decision (Z) was measured through seven indicators representing customers' decisions and behavioral tendencies to select and use BPR services, including their willingness to choose the bank, use its products, conduct financial transactions, and maintain their relationship with the institution. Thus, the questionnaire consisted of 19 measurement items corresponding to the indicators retained in the empirical model. All constructs were specified as reflective constructs because the observed indicators were treated as manifestations of their respective underlying latent variables.

3.4. Data Analysis

The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS. PLS-SEM was selected because the research model contains latent constructs and a mediating relationship and focuses on explaining and predicting customer-related outcomes. PLS-SEM is suitable for explanatory and predictive research models and does not require the assumption of multivariate normality in the same manner as covariance-based SEM (Hair & Alamer, 2022). The analysis was conducted in two main

stages: assessment of the measurement model (outer model) and assessment of the structural model (inner model).

a. Measurement Model Assessment

The measurement model was assessed to establish the reliability and validity of the reflective constructs. The assessment included indicator reliability, internal consistency reliability, convergent validity, and discriminant validity. Indicator reliability was assessed through outer loadings. Indicators with loadings around or above 0.708 are generally considered satisfactory for reflective measurement models (Hair & Alamer, 2022). Internal consistency reliability was assessed using Cronbach's alpha, ρ_A , and composite reliability, with values of approximately 0.70 or higher considered indicative of acceptable reliability. Convergent validity was assessed using the Average Variance Extracted (AVE), with a minimum value of 0.50 indicating that the construct explains at least half of the variance of its indicators. Discriminant validity was assessed using the Fornell-Larcker criterion and the Heterotrait-Monotrait (HTMT) ratio. Contemporary PLS-SEM guidelines recommend HTMT as an important criterion for assessing discriminant validity.

b. Structural Model Assessment

After the measurement model was established, the structural model was evaluated. The assessment included collinearity, coefficient of determination (R^2), effect size (f^2), predictive relevance, and the significance of structural path coefficients. Collinearity was evaluated using the Variance Inflation Factor (VIF). The coefficient of determination (R^2) was used to evaluate the proportion of variance in the endogenous constructs explained by their predictors. Effect size (f^2) was examined to determine the substantive contribution of each exogenous construct to the endogenous construct. Predictive relevance was evaluated using the Q^2 value and the PLS-based predictive assessment. The significance of the hypothesized relationships was evaluated using bootstrapping. The analysis generated path coefficients, standard errors, t-statistics, and p-values. A relationship was considered statistically significant when the p-value was below 0.05. Current PLS-SEM guidance recommends assessing structural models through collinearity, the size and significance of path coefficients, R^2 , and predictive performance rather than relying primarily on conventional global goodness-of-fit measures.

c. Mediation Analysis

Mediation analysis was conducted to determine whether customer trust transmits the effect of product innovation to customer decisions. The indirect effect was assessed through bootstrapping. The mediation relationship was evaluated based on the significance of the indirect path from Product Innovation to Customer Decision through Customer Trust.

d. Ethical Considerations

Participation in the study was voluntary. Respondents were informed about the purpose of the research and the use of the questionnaire data for academic purposes. Responses were treated confidentially and were analyzed in aggregate form. No personally identifying information was reported in the analysis.

IV. Result and Discussion

4.1. Respondent Characteristics

A total of 100 respondents participated in this study. The respondents were traders at Pondok Gede Market, Bekasi City. Their characteristics are presented in Table 1.

Table 1. Characteristics of Respondents

Characteristic	Category	Percentage
Gender	Male	67%
	Female	33%
Age	17–30 years	36%
	31–40 years	57%
	41–50 years	7%
	Over 50 years	–
Education	Junior High School	5%
	Senior High School	88%
	Bachelor's degree	7%
Occupation	Vegetable seller	48%
	Meat seller	20%
	Fruit seller	8%
	Clothing seller	16%
	Furniture seller	5%
	Gold seller	3%
Trading experience	< 1 year	6%
	1–2 years	8%
	2–5 years	22%
	> 5 years	64%

The respondents were predominantly male (67%) and aged 31–40 years (57%). Most respondents had completed senior high school (88%). In terms of occupation, vegetable sellers constituted the largest group (48%). The majority of respondents had also been engaged in trading for more than five years (64%). The relatively long trading experience of most respondents is relevant to the research context because experienced traders are likely to have established financial needs related to business capital, savings, and daily transactions. Therefore, their perceptions of banking product innovation and trust may be particularly relevant to understanding their decisions to use financial services.

4.2. Descriptive Statistics

Descriptive statistics were used to examine the distribution of responses for each research indicator. The analysis included the mean, median, minimum, maximum, and standard deviation. The results are presented in Table 2.

Table 2. Descriptive Statistics of Research Variables

Item	Missing	Mean	Median	Min	Max	Standard Deviation
X1.1	0	4.22	4	1	5	0.769
X1.2	0	4.10	4	1	5	0.819
X1.3	0	4.20	4	1	5	0.762
X1.4	0	4.27	4	1	5	0.719
X1.5	0	4.18	4	1	5	0.779
Y.1	0	4.21	4	1	5	0.725
Y.2	0	4.11	4	1	5	0.733
Y.3	0	4.15	4	1	5	0.792
Y.4	0	4.16	4	1	5	0.809
Y.5	0	4.30	4	1	5	0.755
Y.6	0	4.15	4	1	5	0.726

Y.7	0	4.25	4	1	5	0.753
Z.1	0	4.02	4	1	5	0.761
Z.2	0	3.74	4	1	5	0.832
Z.3	0	4.09	4	1	5	0.750
Z.4	0	4.12	4	1	5	0.725
Z.5	0	4.16	4	1	5	0.758
Z.6	0	4.14	4	1	5	0.721
Z.7	0	4.16	4	1	5	0.731

The results indicate generally favorable perceptions across all three constructs. The mean values for Product Innovation ranged from 4.10 to 4.27, while Customer Trust ranged from 4.11 to 4.30. Customer Decision produced mean values between 3.74 and 4.16. No missing observations were identified. The relatively high mean scores indicate that respondents generally perceived the bank's products positively and expressed considerable trust. However, the comparatively lower mean for Z.2 suggests that favorable perceptions do not necessarily result in equally strong customer decisions. This observation is consistent with the subsequent structural-model results, where Product Innovation does not have a significant direct effect on Customer Decision.

4.3. Measurement Model Assessment

a. Outer Loadings

The measurement model was first assessed through outer loadings. The results are presented in Table 3.

Table 3. Outer Loadings

Indicator	Loading	Indicator	Loading
X1.1	0.844	Y.6	0.774
X1.2	0.789	Y.7	0.871
X1.3	0.828	Z.1	0.872
X1.4	0.824	Z.2	0.74
X1.5	0.794	Z.3	0.854
Y.1	0.862	Z.4	0.875
Y.2	0.845	Z.5	0.892
Y.3	0.814	Z.6	0.864
Y.4	0.756	Z.7	0.892
Y.5	0.817		

All indicators have outer-loading values above 0.70. The lowest loading is Z.2 (0.740), while the highest is Z.5 and Z.7 (0.892). Thus, all indicators meet the commonly accepted criterion for reflective indicators and were retained in the model. These results demonstrate that each indicator adequately represents its corresponding latent construct.

b. Construct Reliability and Convergent Validity

Table 4. Reliability and Convergent Validity

Construct	Cronbach's Alpha	Composite Reliability (rho_A)	Composite Reliability (rho_C)	AVE
X (Product Innovation)	0.874	0.876	0.909	0.666
Y (Customer Trust)	0.919	0.921	0.935	0.674
Z (Customer Decision)	0.939	0.942	0.951	0.735

All constructs demonstrate satisfactory internal consistency. Cronbach's alpha values range from 0.874 to 0.939, while composite reliability values range from 0.909 to 0.951. All values exceed the recommended minimum of 0.70. The AVE values also exceed 0.50, ranging from 0.666 to 0.735. Therefore, the measurement model demonstrates satisfactory reliability and convergent validity.

c. Discriminant Validity: Fornell-Larcker Criterion

Table 5. Fornell-Larcker Criterion

Construct	X (Product Innovation)	Y (Customer Trust)	Z (Customer Decision)
X (Product Innovation)	0.838		
Y (Customer Trust)	0.816	0.883	
Z (Customer Decision)	0.781	0.821	0.857

The diagonal values represent the square root of AVE for each construct. Each diagonal value is greater than the correlations between the respective construct and other constructs. Therefore, the Fornell-Larcker criterion is satisfied, indicating acceptable discriminant validity among Product Innovation, Customer Trust, and Customer Decision.

4.4. Structural Model Assessment

a. Collinearity Assessment

Table 6. VIF Values

Indicator	VIF	Indicator	VIF
X1.1	2.298	Y.1	3.428
X1.2	1.909	Y.2	2.682
X1.3	2.219	Y.3	2.457
X1.4	2.065	Y.4	1.993
X1.5	1.863	Y.5	2.754
Z.1	3.408	Y.6	2.012
Z.2	1.903	Y.7	3.177
Z.3	3.512	Z.4	3.948
Z.5	4.216	Z.6	4.184
Z.7	3.945		

The VIF values range from 1.863 to 4.216. Because all values are below 5, the model does not demonstrate problematic multicollinearity based on the criterion used in this study.

b. Model Fit

Table 7. Model Fit

Index	Saturated Model	Estimated Model
SRMR	0.067	0.067
d_ULS	1.333	1.333
d_G	1.118	1.118
Chi-square	574.13	574.13
NFI	0.758	0.758

The SRMR value of 0.067 is below 0.08, indicating an acceptable discrepancy between the observed and model-implied correlations according to the criterion applied in the original analysis.

c. Coefficient of Determination (R^2)

Table 8. R^2 Values

Endogenous Construct	R^2	Adjusted R^2
Y – Customer Trust	0.759	0.754
Z – Customer Decision	0.798	0.791

Product Innovation explains 75.9% of the variance in Customer Trust. Meanwhile, the model explains 79.8% of the variance in Customer Decision. These values indicate substantial explanatory power based on the interpretation adopted in the study.

d. Effect Size (f^2)

Table 9. Effect Size (f^2)

Structural Path	f^2
X (Product Innovation) → Y (Customer Trust)	0.368
X (Product Innovation) → Z (Customer Decision)	0.003
Y (Customer Trust) → Z (Customer Decision)	0.231
Z (Customer Decision) → Y (Customer Trust)	0.534

The effect-size results show that Product Innovation has a large effect on Customer Trust ($f^2 = 0.368$), while Customer Trust has a medium effect on Customer Decision ($f^2 = 0.231$). The direct effect of Product Innovation on Customer Decision is negligible ($f^2 = 0.003$).

e. Predictive Relevance ($Q^2_{predict}$)

Table 10. Predictive Relevance

Construct	$Q^2_{predict}$	RMSE	MAE
Y – Customer Trust	0.759	0.519	0.398
Z – Customer Decision	0.680	0.601	0.470

The $Q^2_{predict}$ values are positive for both endogenous constructs, with values of 0.759 for Customer Trust and 0.680 for Customer Decision. These results indicate that the model has predictive relevance for both endogenous constructs.

4.5. Hypothesis Testing

a. Direct Effects

Table 11. Direct Effect and Hypothesis Testing

Path	Original Sample (O)	Sample Mean (M)	STDEV	T Statistics	P Values	Decision
X → Y	0.510	0.505	0.082	6.217	< .001	Supported
X → Z	0.048	0.050	0.091	0.529	.597	Not supported
Y → Z	0.669	0.658	0.097	6.901	< .001	Supported

The results show that Product Innovation has a positive and significant effect on Customer Trust ($\beta = 0.510$, $t = 6.217$, $p < .001$). In contrast, Product Innovation does not have a significant direct effect on Customer Decision ($\beta = 0.048$, $t = 0.529$, $p = .597$). Customer Trust has a positive and significant effect on Customer Decision ($\beta = 0.669$, $t = 6.901$, $p < .001$).

b. Indirect Effect

Table 12. Indirect Effect

Indirect Path	Original Sample (O)	Sample Mean (M)	STDEV	T Statistics	P Values
X → Y → Z	0.341	0.332	0.072	4.731	< .001

The indirect effect of Product Innovation on Customer Decision through Customer Trust is positive and statistically significant ($\beta = 0.341$, $t = 4.731$, $p < .001$). This finding is particularly important because the direct relationship between Product Innovation and Customer Decision is not significant, whereas the indirect relationship through Customer Trust is significant. The result therefore indicates that Customer Trust plays an important intervening role in translating product innovation into customer decisions.

4.6. Discussion

a. Product Innovation → Customer Trust

The first hypothesis is supported. Product Innovation has a positive and significant effect on Customer Trust ($\beta = 0.510$, $t = 6.217$, $p < .001$). This finding indicates that customers' perceptions of innovative banking products are associated with stronger confidence in the institution. The result is consistent with the Diffusion of Innovations perspective, particularly the concepts of relative advantage and compatibility. When customers perceive that an innovation provides meaningful benefits and corresponds to their needs, the innovation can generate more favorable evaluations of the service provider. In the BPR context, innovation may therefore function not only as a product-development strategy but also as a signal of the bank's ability to respond to changing customer needs. This finding is also consistent with research by Ekawaty and Kusnawan (2025), which found a significant relationship between product innovation and customer satisfaction in a BPR context. The present study extends this perspective by demonstrating that innovation is also significantly associated with customer trust.

b. Product Innovation → Customer Decision

The second direct relationship is not supported. Product Innovation has a positive but statistically insignificant effect on Customer Decision ($\beta = 0.048$, $t = 0.529$, $p = .597$). This result suggests that product innovation alone is insufficient to determine customers' decisions to use BPR services. Although respondents generally evaluated product innovation positively, those positive evaluations did not directly translate into customer decisions. One possible explanation is the nature of banking services. Customers are not merely evaluating the functional characteristics of a product; they must also consider security, reliability, institutional credibility, and the risks associated with entrusting their financial resources to the bank. Consequently, innovation may influence customer decisions only after it has generated sufficient confidence in the institution. This interpretation is also consistent with the negligible effect size ($f^2 = 0.003$), indicating that the direct contribution of Product Innovation to Customer Decision is very limited.

c. Customer Trust → Customer Decision

The third relationship is supported. Customer Trust has a positive and significant effect on Customer Decision ($\beta = 0.669$, $t = 6.901$, $p < .001$). Among the direct relationships examined, this path has the largest standardized coefficient. The finding demonstrates that trust is an important factor in customers' decisions concerning financial services. Customers who have confidence in the bank are more likely to choose and use its services. This is particularly relevant to BPRs because their customers may establish continuing relationships involving savings, financing, and business transactions. The result reinforces the argument that BPR innovation should be accompanied by trust-building mechanisms. Innovative products may attract attention, but customer trust is more directly related to the decision to use the service.

d. The Mediating Role of Customer Trust

The indirect effect is statistically significant ($\beta = 0.341$, $t = 4.731$, $p < .001$). This finding provides the central contribution of the study. Product Innovation does not significantly influence Customer Decision directly, but it has a significant indirect effect through Customer Trust. Thus, the relationship between innovation and customer decision is better understood as a process in which innovation first contributes to customer confidence and that confidence subsequently contributes to the customer's decision.

V. Conclusion

This study examined the relationship between product innovation, customer trust, and customer decisions to use Rural Bank (BPR) services among traders at Pondok Gede Market, Bekasi City. Using a quantitative approach and PLS-SEM analysis, the study demonstrates that customer responses to banking innovation cannot be explained solely by the direct availability of innovative products. The findings indicate that customer trust plays an important role in translating product innovation into customer decisions. First, Product Innovation has a positive and significant effect on Customer Trust ($\beta = 0.510$, $t = 6.217$, $p < .001$). This finding indicates that customers who perceive BPR products as innovative tend to demonstrate greater confidence in the institution. The result supports the relevance of the Diffusion of Innovations perspective, particularly the importance of innovation characteristics that provide meaningful benefits and correspond to customer needs. Second, Product Innovation does not have a significant direct effect on Customer Decision ($\beta = 0.048$, $t = 0.529$, $p = .597$). Although respondents generally provided favorable assessments of product innovation, these perceptions were not sufficient to directly determine their decisions to choose or use BPR services. This finding suggests that innovation alone does not automatically translate into customer behavioral decisions in the banking context. Third, Customer Trust has a positive and significant effect on Customer Decision ($\beta = 0.669$, $t = 6.901$, $p < .001$). This relationship represents the strongest direct effect in the structural model. The finding indicates that customers' confidence in the reliability, security, and capability of the financial institution is an important consideration when deciding whether to use its services. Finally, the indirect effect of Product Innovation on Customer Decision through Customer Trust is positive and significant ($\beta = 0.341$, $t = 4.731$, $p < .001$). This result demonstrates that Product Innovation becomes behaviorally relevant through Customer Trust. In other words, innovative products may strengthen customer decisions when they also increase customers' confidence in the BPR. The empirical pattern is therefore better represented by Product Innovation $\rightarrow$ Customer Trust $\rightarrow$ Customer Decision than by a simple direct relationship between Product Innovation and Customer Decision.

The findings have practical implications for BPR management. Innovation strategies should not focus exclusively on introducing new products or technological features. BPRs should ensure that innovations are relevant to customer needs, easy to understand and use, reliable, secure, and supported by transparent communication. Building customer trust should therefore be an integral component of product innovation strategies. Such an approach can help BPRs convert the perceived value of innovation into actual customer decisions and strengthen their relationships with customers. This study has several limitations. First, the research was conducted with 100 traders at Pondok Gede Market, Bekasi City; therefore, the findings should be generalized to other BPR customer populations with caution. Second, the study focused on Product Innovation, Customer Trust, and Customer Decision, meaning that other potentially relevant factors, such as service quality, perceived security, digital literacy, perceived risk, price or financing costs, and accessibility, were not incorporated into the model. Third, the cross-sectional design limits the ability to capture changes in customer perceptions and decisions over time. Future research could extend the model by incorporating additional determinants of BPR customer behavior and testing the model across different regions, customer groups, and types of BPR services. Comparative studies between conventional BPR services and digitally enabled BPR services could also provide further insight into how technological innovation and trust interact in shaping customer decisions.

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