THE EFFECT OF ISLAMIC SERVICE QUALITY ON CUSTOMER SATISFACTION AND LOYALTY IN ISLAMIC BANKS IN INDONESIA

Anjelisa[1], Indah Fatmawati[2], Nuryakin[3]
[1,2,3]Master of Management, Muhammadiyah University Yogyakarta
E-mail: [1]anjelisa18@gmail.com, [2]indahfatmawati@umy.ac.id, [3]nuryakin@umy.ac.id

Article Info	ABSTRACT
	The performance of Islamic banking in Indonesia continues to improve year after year, but the market share of conventional banking that continues to dominate demonstrates that the existence of Islamic banking in Indonesia's dual banking system is still in the shadow of conventional banking. The goal of this research is to look at how customer perceptions of Islamic service quality affect customer satisfaction and loyalty to Islamic banks in Indonesia. Structural Equation Modeling (SEM) with AMOS as an analysis tool is used in data analysis procedures. According to the study's findings, the quality of Islamic services has a positive and significant influence on customer happiness and loyalty, and customer satisfaction has a positive and significant influence on customer loyalty. These findings highlight the need for evaluating service quality in the context of Islamic banks. If the compliance dimension is thoroughly implemented in the operation of the Islamic banking firm, Islamic banking can have a competitive advantage over conventional banking.

Corresponding Author:

Anjelisa
Master of Management,
Muhammadiyah University Yogyakarta
Email: anjelisa18@gmail.com

1. INTRODUCTION

Indonesia, the world's largest Muslim-populated country, should excel in Islamic finance. Yet, according to Islamic Banking Snapshot (SPS) data, the market share of Islamic banks increased by just about 5% between 2017 and 2019. From December 2020 to September 2021, Islamic banks held a market share of 6.52%, while conventional banks held a market share of 93.48%. One particularly sad aspect is the market dominance of conventional banks, which continue to dominate the Indonesian banking system. In addition, from other aspects such as asset growth, disbursed financing (PYD) and third party funds (DPK) Islamic banks are still volatile over the last five years from 2017-2021.
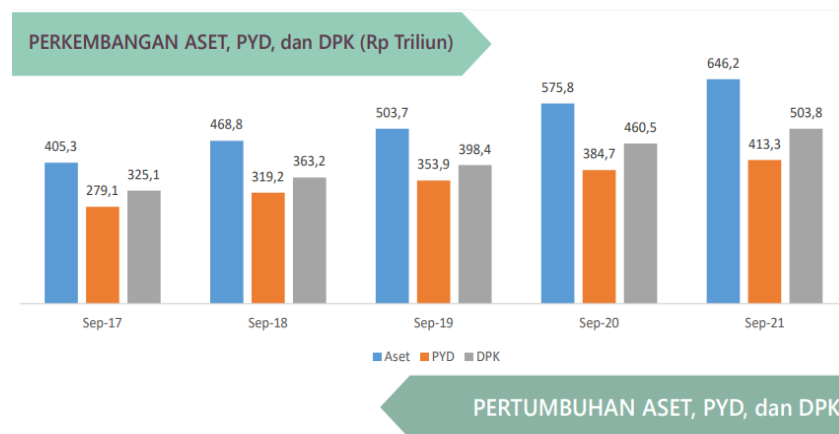
Figure 1. Development of ASSETS, PYD and DPK Sharia Banking in Indonesia

Developing loyal consumers is at the heart of any business. Customer loyalty may be a contributing factor to Islamic banking's minimal market share in Indonesia. Consumer loyalty describes the level of satisfaction with a company's product or service [1]. Customer satisfaction is analogous to post-purchase customer evaluation, in which comparing impressions of the performance of the selected product or service might meet or surpass expectations prior to purchase. Customer satisfaction is created when the perception of performance fulfills expectations [2]. Customer satisfaction and loyalty will grow if the products and services provided by Islamic banking meet customer expectations [3], [4], [5].

The Islamic banking industry must provide higher quality services than competitors consistently and differentiate services in order to create customer satisfaction [6], [4], [7]. The goal is to get loyal customers in a situation of increasingly fierce interbank competition [8], [9], [10]. One strategy that can be applied as a differentiation from conventional banks is to emphasize Islamic values in their service [7].

According to Islamic law, service quality is a sort of cognitive evaluation by customers of the presentation of services by service businesses that rely on each of their activities being moral and in accordance with the compliance that has been defined by Islamic law [11]. The quality of services provided follows the provisions of Islamic sharia, especially with regard to the procedures for Islamic muamalat. Services are provided in accordance with Islamic law and principles, no interest is taken or given on financing products or savings, but profit-sharing provisions are used [12].

To assess the quality of services in Islamic banking, established the CARTER model this model adds a dimension of compliance relating to consumers' attitudes regarding religious beliefs in influencing their decision to acquire a product or service [11]. Compliance refers to the compliance of a business entity or product with principles defined by religion, which is what makes Islamic banking different from conventional banking. Islamic banking customers view the compliance dimension as the most substantial factor. Because the compliance dimension can be used thoroughly in running an Islamic banking business, Islamic banking can have a competitive edge that conventional banking does not have [7], [13], [6].

Islamic banking must be aware of the quality of service. Islamic bank products and services must be accepted by consumers as high-quality products and services. Using quality services in Islamic banks is important because of its clear relationship with costs, profits, consumer satisfaction, consumer memory, and positive words from the consumer's mouth [11]. The quality of Islamic bank services must be improved to maximize customer satisfaction and build customer loyalty [7], [14], [15].

Based on the explanation above, it can be stated that service quality is crucial in a business in order to achieve client satisfaction, which motivates them to become loyal consumers. Therefore, in this study, we want to find out whether the quality of Islamic services affects customer satisfaction and loyalty and whether satisfaction affects the loyalty of Islamic bank customers in Indonesia.

2.   RESEARCH METHOD

This study takes a quantitative approach. This study used a causal research strategy. The goal of causal researchers is to prove that variable X causes variable [16].

Researchers employed a survey method to acquire research data for this study. Purposive sampling was employed in this study, with the requirement that respondents were priority customers who had made at least two transactions with Islamic banks in Indonesia [16]. Data collection is carried out by spreading online questionnaires on the Google Forms application. The Likert scale is used to measure a scale of variables with a range of values ranging from 1 "Strongly Disagree" to 5 "Strongly Agree"

The Structural Equation Model (SEM) with AMOS software was used to analyze 252 questionnaires that had been well filled out by respondents and were divided into several characteristics according to gender, age, education, occupation, and the name of the bank where the respondent was a customer.

3. RESULTS AND ANALYSIS

3.1. Validity Test

Refer to the results of the values presented in table 1, for validity tests with the criteria of the standard loading factor value > 0.5 [17]. So based on the test results, it shows that the overall indicators of Islamic service quality, customer satisfaction, customer loyalty are valid.

Table 1. Validity Tests

Variable	Indicators	Loading factor	Description
Islamic Service Quality	X1.1	0,795	Valid
	X1.2	0,748	Valid
	X1.3	0,775	Valid
	X1.6	0,788	Valid
	X1.7	0,793	Valid
	X1.8	0,783	Valid
	X1.9	0,796	Valid
	X1.11	0,757	Valid
	X1.12	0,754	Valid
	X1.15	0,795	Valid
	X1.16	0,793	Valid
	X1.17	0,790	Valid
	X1.20	0,797	Valid
	X1.21	0,757	Valid
	X1.22	0,798	Valid
	X1.24	0,765	Valid
	X1.25	0,778	Valid
	X1.26	0,761	Valid
Customer satisfaction	X2.1	0,822	Valid
	X2.2	0,822	Valid
	X2.3	0,754	Valid
	X2.4	0,831	Valid
	X2.5	0,832	Valid
Customer loyalty	Y1	0,735	Valid
	Y2	0,749	Valid
	Y3	0,692	Valid
	Y4	0,791	Valid
	Y5	0,805	Valid
	Y6	0,848	Valid

Source: Primary data processed 2022

3.2. Reliability Test

Reliability Tests shows the consistency and stability of measurement scales. Reliability is an index that indicates how trustworthy the measurement instrument is. The level of reliability can be determined by calculating a CR (Construct Reliability) value greater than 0.7 and a VE (Variance Extract) value greater than 0.5 [17].

Based on the CR (Construct Reliability) value created > 0.7 and the VE (Variance Extract) value generated > 0.5 in Table 2, all construct indicators of Islamic service quality, customer satisfaction, and customer loyalty in this study can be considered reliable.

Table 2. Reliability Test

Variable	C.R	AVE	Description
Islamic service quality	0,956	0,607	Reliable
Customer satisfaction	0,907	0,661	Reliable
Customer loyalty	0,902	0,595	Reliable

Source: primary data processed 2022

3.3. Hypothesis Test

Table 3 describes the relationship between Islamic service quality, customer satisfaction, and customer loyalty. C.R. values and probability describe a positive and significant relationship between each variable. The magnitude of the value is conventionally set at 5% (0.05). In addition, the level of significance is also seen from the CR (critical ratio) value. If the CR value is > 1.96, then the variable is said to be significant, and if the p-value is 0.05, then the indicator variable is said to be significant [17].

Table 3. Hypothesis Test Results

Regression Weights	Est.	S.E.	CR	p-value	Description
Islamic service quality and customer satisfaction	0,507	0,064	7,986	0,000	Significant
Islamic service quality and customer loyalty	0,104	0,048	2,185	0,029	Significant
Customer satisfaction and customer loyalty	0,459	0,068	6,764	0,000	Significant

Source: primary data processed 2022

Statistically, table 3 shows the results of hypothesis 1 testing the relationship between Islamic service quality and customer satisfaction showing value (CR = $7.986 \geq 1.96$), with a P-value of ($0.000 \leq 0.05$). These results show that the quality of Islamic services affects customer satisfaction. Hypothesis 1 is accepted. Hypothesis Test 2 tests the relationship of Islamic service quality with customer loyalty (CR = $2.185 \geq 1.96$), with a P value of ($0.029 \leq 0.05$). These results show that the quality of sharia services affects customer loyalty. Hypothesis 2 is accepted. Hypothesis test 3 tested customer satisfaction with customer loyalty showing value (CR = $6.764 \geq 1.96$), with a P-value of ($0.000 \leq 0.05$). These results show that customer satisfaction affects customer loyalty. Hypothesis 3 is accepted.

3.4. Discussion
3.4.1. The effect of Islamic service quality on customer satisfaction

According to the findings of the study, the quality of Islamic services has a good and considerable impact on customer satisfaction. This study explains why the higher the quality of Islamic services offered by Islamic banks, the more delighted their customers will be. This study's findings are consistent with those of who discovered that the quality of Islamic banking services has a favorable and significant effect on customer satisfaction [15], [7], [3].

3.4.2. The effect of Islamic service quality on customer loyalty

According to the findings of the study, the quality of Islamic services has a favourable and significant impact on customer loyalty. This conclusion explains why, as the quality of Islamic services improves, customers become more loyal to Islamic banks. This study's findings are consistent with those of who discovered that the quality of Islamic banking services has a favourable and significant effect on customer loyalty [3], [7], [5].

3.4.3. Effect of customer satisfaction on customer loyalty

According to the findings of the study, customer satisfaction has a positive and considerable impact on customer loyalty. This research explains why the higher the level of customer happiness, the greater the consumer loyalty to Islamic banks. The findings of this study are consistent with those of who discovered that customer satisfaction has a positive and significant influence on customer loyalty [7], [14], [15].

4.   CONCLUSION

According to the findings of this research, the quality of service in Islamic banking has a substantial association with customer happiness and loyalty. There are several managerial implications that can be used as an idea that can be practically applied by Islamic banks in Indonesia, namely by running and developing types of contracts in transactions, developing quality human resources, and maintaining the consistency of Islamic banks in holding Sharia principles (compliance) so that the course of Sharia business does not deviate from the original purpose of forming a Sharia bank. Furthermore, the next researcher is expected to pay attention to factors that can affect loyalty. And should expand the research by adding other variables so that more complete information is obtained about the factors that may affect customer loyalty that have not been studied in this study.

REFERENCES
[1]   Kotler, P., & Keller, K. L. (2016). Marketing Management. In Marketing Management (15th ed.). Essex Pearson Education Limited.
[2]   Tjiptono, Fandy, and Gregorius Chandra. "Pemasaran Strategik, Edisi 2, Yogyakarta, CV." Andi offset (2012).
[3]   Haron, Razali, Noradilah Abdul Subar, and Khairunisah Ibrahim. "Service quality of Islamic banks:

satisfaction, loyalty and the mediating role of trust." Islamic Economic Studies 28.1 (2020): 3-23. https://doi.org/10.1108/ies-12-2019-0041

[4]   Asnawi, Nur, Badri Munir Sukoco, and Muhammad Asnan Fanani. "The role of service quality within Indonesian customers satisfaction and loyalty and its impact on Islamic banks." Journal of Islamic Marketing 11.1 (2020): 192-212. https://doi.org/https://dx.doi.org/10.1108/JIMA-03-2017-0033

[5]   Dandis, Ala'Omar, et al. "Enhancing consumers' self-reported loyalty intentions in Islamic Banks: The relationship between service quality and the mediating role of customer satisfaction." Cogent Business & Management 8.1 (2021): 1892256. https://doi.org/10.1080/23311975.2021.1892256

[6]   Abdul Rehman, Asma. "Customer satisfaction and service quality in Islamic banking: A comparative study in Pakistan, United Arab Emirates and United Kingdom." Qualitative Research in Financial Markets 4.2/3 (2012): 165-175. https://doi.org/10.1108/17554171211252501

[7]   Fauzi, Abu Amar, and Tatik Suryani. "Measuring the effects of service quality by using CARTER model towards customer satisfaction, trust and loyalty in Indonesian Islamic banking." Journal of Islamic Marketing 10.1 (2019): 269-289. https://doi.org/10.1108/JIMA-04-2017-0048

[8]   Makanyeza, Charles, and Lovemore Chikazhe. "Mediators of the relationship between service quality and customer loyalty: Evidence from the banking sector in Zimbabwe." International Journal of Bank Marketing 35.3 (2017): 540-556. https://doi.org/10.1108/IJBM-11-2016-0164

[9]   Sutanto, Heri, Siti Dyah Handayani, and Susanto Susanto. "Measuring Customer Loyalty and Satisfaction of Bank Bantul Using CRM and Service Quality." JBTI: Jurnal Bisnis: Teori dan Implementasi 12.3 (2021): 172-183.

[10]   Peng, Lee Siew, and Sedigheh Moghavvemi. "The dimension of service quality and its impact on customer satisfaction, trust, and loyalty: A case of Malaysian banks." Asian Journal of Business and Accounting 8.2 (2015).

[11]   Othman, AbdulQawi, and Lynn Owen. "The multi dimensionality of Carter Model to measure customer service quality (SQ) in Islamic banking industry: a study in Kuwait finance house." International Journal of Islamic Financial Services 3.4 (2001): 1-12.

[12]   Sari, Devi Cornelia, and R. A. Marlien. "Pengaruh kualitas layanan, kepercayaan, dan nilai pelanggan terhadap loyalitas pelanggan (Studi pada nasabah tabungan Bank BNI Syariah Cabang Semarang)." (2019).

[13]   Lone, Fayaz Ahmad, Ebraheem Mohamad Aldawood, and Ulfat Rashid Bhat. "Customer satisfaction towards Islamic banking in Saudi Arabia: an application of CARTER model." International Journal of Services Operations and Informatics 8.4 (2017): 333-351. https://doi.org/10.1504/IJSOI.2017.086585

[14]   Zafar, Mohsin, et al. "Service quality, customer satisfaction and loyalty: An empirical analysis of banking sector in Pakistan." Information management and business review 4.3 (2012): 159-167.

[15]   Kashif, Muahmmad, et al. "Customer satisfaction and loyalty in Malaysian Islamic banks: a PAKSERV investigation." International Journal of Bank Marketing 33.1 (2015): 23-40.

[16]   Sekaran, Uma, and Roger Bougie. Research methods for business: A skill building approach. john wiley & sons, 2016.

[17]   Ghozali, Imam. "Model persamaan struktural konsep dan aplikasi dengan program AMOS 24." Semarang: Badan Penerbit Universitas Diponegoro (2017).