Customer Satisfaction and Loyalty in Islamic Banking: The Role of Quality, Economic, and Image

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Abstract. This study is conducted to evaluate the effect of service quality, economic, and image in determining customer satisfaction and loyalty towards Islamic Bank. Accordance with the provisions of DSN-MUI Islamic Banks are required to run their business based on Islamic principles. Serving customers maximally is a form of applying Islamic principles in business ethics. The data were obtained by distributing questionnaires to 280 customers of Islamic banks in two cities, Medan and Bandung. This study uses Partial Least Square Structural Equation Model (PLS-SEM). The data analysis results show that service quality (measured by tangible, assurance, empathy, and responsiveness) is an important determinant of customer satisfaction and loyalty. Image only gives significant impact on satisfaction but not on loyalty. From managerial perspective, this study provides a guidance for Islamic bank managers that beside providing high service quality, they also need to be efficient as well as to have a favorable image as important strategies for advancing their banks competitive advantage. The results of this study can be used as a consideration for company management through improving services to customers and forming a good image in the society because it can be a positive signal to increase customer satisfaction and loyalty.

1. Introduction
Islamic banking industry has a different way of increasing profits. The managers of Islamic banks need to know what strategies that the company implements in generating profits to add customers. Making customers feel satisfied and loyal is a strategy that until now is still a special concern. The study of the importance of customer satisfaction has been discussed by [1] and the main focus of current marketing activities lies in achieving customer loyalty [2]. Customers who are satisfied will slowly turn into loyal customers if their expectations are fulfill [3].

The past study [4] found the failure of the banking sector in maintaining long-term relationships with customers because the quality of products and services provided would result in the loss of customers. Based on data released by the Otoritas Jasa Keuangan (OJK) there has been a decrease in the number of Islamic commercial bank offices in 2017 to 1,821 office networks from the previous year 2016 with 1,869 office networks. This is due to one of the many Islamic banks moving branch office services to regional offices due to a lack of investor confidence in investing in Islamic banks and as a consequence of the public's impression of Islamic banks [5]. The key to the success of the company lies in the satisfaction of its customers in order to remain able to compete with other competitors. So Islamic banks are required to serve customers optimally because service quality plays an important role in fulfilling customer expectations [6]. It can be explained by the fact that the increased of satisfaction is reflected
in the customer's perceptions of the bank's image [1]. So Islamic banks are required to serve customers maximally because service quality plays an important role in meeting customer expectations.

This research is intended to discuss the factors that influence customer satisfaction and loyalty to Islamic banks seen from service quality, economic, and image. The difference between this research and previous research [1] is on service quality using a modification of the SERVQUAL model [7] and also adding the dimensions of compliance of Islamic banks [8] while in previous studies using functional quality and relational quality. The identified model can help management understand the factors that influence customer satisfaction and loyalty and can be used by Islamic bank management in getting new investors to increase third party funds.

1.1. Service quality to Customer Satisfaction and Loyalty

Service quality represents customers expectations on what a company must provide and the services the customers will get [7, 8]. Service quality itself is often seen as a measure of how well the company can provide service in accordance with customers expectations [9]. Service quality itself is often seen as a measure of how well the company can provide service in accordance with customers expectations [9]. The choice of a customer who decides to use Islamic bank or move to another bank is determined by the quality of the services received [10]. A good service quality will result in repeat purchases by the customers, while poor service quality can trigger customers to convey bad things about the company that will reduce the level of sales. As a result, customer will move to other companies [11]. The success of a company in the future is determined by its capability to increase the number of customers and maintain customer loyalty through service quality that fulfill or exceed customer expectations [12]. Therefore, the main focus of Islamic banking currently is on the relationship of service quality and customer satisfaction. The study of service quality in Malaysia Islamic banking industry found that the banking sector must improve the quality of its services if it wants to increase trust, satisfaction, and reputation, because these aspects can increase market share in a sustainable and long term [13]. Satisfaction is the connecting factor between service quality and loyalty [6]. The dimension of service quality in this study is adopted from [6]. Based on the explanation above, the hypothesis that can be drawn are:

H1a: Service Quality has a positive and significant effect on customer satisfaction
H1b: Service Quality has a positive and significant effect on customer loyalty

1.2. Economic to Customer Satisfaction and Loyalty

According to [14], economic costs can be divided into two, namely monetary costs and non-monetary costs. The monetary costs consist of prices for services offered including the additional costs, while non-monetary cost is a form of expenditure that cannot be assessed with money including the time needed to obtain services from Islamic banks. Customers prefer the economic rationale when deciding to choose Islamic banks over conventional bank [15]. The findings of past study indicate that customer satisfaction has a positive influence and mediates customer expectations and purchase intentions on low-cost airlines in Vietnam. Customers will make repeat purchases on the airlines that provide low service fees which meet customer expectations [16]. Research [1] says that economic cost have a positive and significant effect on customer satisfaction and loyalty. The hypothesis that can be drawn from this study are:

H2a: Economic has a positive and significant effect on customer satisfaction
H2b: Economic has a positive and significant effect on customer loyalty

1.3. Image to Customer Satisfaction and Loyalty

The definition of image is conceptualized differently in some literatures. Image can be defined as symbolic meaning that can be remembered by customers when they use a product or receive services from a company, in this case Islamic bank. In other words, image reflects the public's impression of the company. From this image, the customer can describe what they feel as long as being part of the company, whether about the product or service that has been used [17]. If a bank is considered good in
the community, the bank can maintain its position and reputation so that it can remain to compete in the Islamic banking industry[18]. Customers tend to be more careful in conducting transactions at service companies, thus they will feel satisfied with the banks that have a good reputation. Company image becomes an important consideration by the customers in conducting the transaction [19]. Based on the explanation above, the hypothesis can be drawn are:
H3a: Image has a positive and significant effect on customer satisfaction
H3b: Image has a positive and significant effect on customer loyalty

1.4. Customer Satisfaction and Loyalty

Customer satisfaction is a description of the extent to which a product performance can meet customer expectations[20]. If the product performance is above the expectations, the customer will feel satisfied or very happy [21]. Several studies on the relationship between customer satisfaction and loyalty have been carried out such as[22] which states that customer satisfaction has direct and positive influence on customer loyalty. A satisfied customer will be loyal and remains a customer of the bank and will possibly recommend others to become part of the Islamic bank customer. Customer satisfaction has a strong influence to Islamic banks image and customer loyalty. Islamic banks must be able to satisfy their customers in order to make the customers continue using Islamic banks in meeting their financial transaction needs. Loyalty is not only seen from customer intention to repurchase but also the tendency to recommend and intention to repurchase even if the price of products and services increases. In the banking context, customer loyalty is usually measured by the length of the relationship between the customer and the bank [23]. Based on the explanation above, the hypothesis can be drawn is:
H4: Customer satisfaction has a positive and significant effect on customer loyalty

2. Method

This study aims to determine the factors that shape customer satisfaction and loyalty. The data in this study were collected through questionnaire distributed to 280 customers of Islamic banks in two cities; Medan and Bandung. This research was conducted from October to December 2018. The population in this study were customers of Islamic commercial banks. The sample in this study was aimed at customers of 4 (four) Islamic banks in Indonesia (Bank Mandiri Syariah, Bank BRI Syariah, Bank BNI Syariah, and Bank Muamalat). The scale used in this study is 5 (five) likert scale (from 1 (one) which means strongly disagree to 5 (five) strongly agree). The number of respondents consisted of 145 women (51.8%), and 135 men (48.2%) with the majority (34.7%) are under the age of 25 years. The data were collected from the customers who visited Islamic banks in Medan and Bandung. Because it was not possible to use proposed sampling technique, so this study used convenience sampling which is the easiest way in sampling technique. To test the proposed hypothesis, this study used path analysis by applying the PLS-SEM (Partial Least Square Structural Equation Modeling) Structural Equation Modeling (SEM) analysis to explain and see the causal relationship between variables. SEM also can complete multilevel models simultaneously which cannot be solved by linear regression equations. This study used warpPLS 6.0 to process the data that had been collected.

3. Result and Discuss

The results of this study can be known by looking at the value of the loading factor above 0.6 and its significance through t statistic (critical ratio), and the reliability of the extract by looking at the composite reliability or Cronbach's alpha above 0.7, the value of AVE above 0.5 [24]. Based on the results of data processed through WarpPLS it can be concluded that each variable, such as service quality, economic, image, customer satisfaction, and loyalty has a composite variable ≥ 0.7 and convergent validity values indicated by AVE of more than 0.5. So based on that it can be said that the indicators are valid and the extract has good reliability (See Table 1).
**Table 1. Reliability and Validity Check**

| Construction/item                        | Loading Factor | Cronbach α | Composite Reliability | AVE  |
|------------------------------------------|----------------|------------|------------------------|------|
| **Service Quality**                      |                |            |                        |      |
| Serving customers according to SOP (RLB1)| 0.571          |            |                        | 0.894|
| Careful, fast, careful in completing transactions (RLB2) | 0.572          |            |                        | 0.909|
| Able to use transaction support tools (RLB3) | 0.556          |            |                        | 0.602|
| Clean and tidy room (TNG1)               | 0.333          |            |                        |      |
| Clean and tidy employee (TNG2)           | 0.489          |            |                        |      |
| Brochures and posters look interesting (TNG3) | 0.617          |            |                        |      |
| Responding to customer complaints (EMP1) | 0.611          |            |                        |      |
| Serving customers without discrimination (EMP2) | 0.660          |            |                        |      |
| Prioritize customer needs (EMP3)         | 0.726          |            |                        |      |
| Act quickly during a transaction failure (RPV1) | 0.630          |            |                        |      |
| Willing to serve customer requests (RPV2) | 0.661          |            |                        |      |
| Willing to help customers (RPV3)         | 0.662          |            |                        |      |
| Secure transactions (ASC1)               | 0.606          |            |                        |      |
| Confident with employee capabilities (ASC2) | 0.665          |            |                        |      |
| Able to give trust to customers (ASC3)   | 0.700          |            |                        |      |
| In accordance with Islamic principles (CMP1) | 0.560          |            |                        | 0.736|
| Prohibition of riba (CMP2)               | 0.531          |            |                        | 0.850|
| Islamic compliant product service (CMP3)  | 0.579          |            |                        | 0.809|
| **Economic**                             | 0.736          | 0.850      | 0.809                  |      |
| The revenue sharing is appropriate (ECO1) | 0.803          |            |                        |      |
| Low transaction service costs (ECO2)     | 0.810          |            |                        |      |
| The amount of time and cost required is quite low (ECO3) | 0.813          |            |                        |      |
| **Image**                                | 0.774          | 0.869      | 0.830                  |      |
| Keep promises to customers (IMG1)        | 0.820          |            |                        |      |
| Have a good name in the banking industry (IMG2) | 0.860          |            |                        |      |
| Have a good reputation in the community (IMG3) | 0.810          |            |                        |      |
| **Customer Satisfaction**                | 0.755          | 0.860      | 0.820                  |      |
| Products and services meet customer expectation (SAT1) | 0.843          |            |                        |      |
| Satisfied as a customer (SAT2)           | 0.842          |            |                        |      |
| Satisfied with service (SAT3)            | 0.772          |            |                        |      |
| **Loyalty**                              | 0.734          | 0.849      | 0.808                  |      |
| Recommend to others (LYT1)               | 0.778          |            |                        |      |
| Increase transaction volume (LYT2)       | 0.798          |            |                        |      |
| Remain a customer (LYT3)                 | 0.847          |            |                        |      |

The above validity and reliability assessment is carried out to fulfill the assessment of structural models and examine the proposed hypothesis. The result shows that the value of Goodness of Fit (GoF) is 0.528, and indicates the compatibility of the large model. Furthermore, Average block VIF (AVIF) has an acceptable value of 2.114 and Average full collinearity VIF (AFVIF) also has an acceptable value and is ideal at the value of 2.158. Likewise, Sympon's paradox ratio (SPR) has an acceptable value of 1,000. Finally, the R-squared contribution ratio (RSCR) shows an acceptable value too, which is the value (1000) and the Statistical suppression ratio (SSR) (1,000) can meet the suitability of the model. In
accordance with the indicators that must be fulfilled in WarpPLS, the model proposed in this study is appropriate. From the results, it is also known that service quality, economic, and image can predict 47% (R²: 0.47) customer satisfaction and customer satisfaction variable can explain 45% (R²: 0.45) the loyalty.

Based on the conditions that must be fulfilled in the PLS-SEM analysis using the WarpPLS analysis tool, it can be concluded (See Figure 1):

![Figure 1. Result of Testing The Model](image)

The service quality has a positive and significant effect on customer satisfaction and direct loyalty with coefficients of 0.26 with significance <0.01 and 0.32 with significance <0.01. From several indicators on service quality variables, there are four indicators that can make customers satisfied and loyal which are tangible, empathy, responsiveness, and assurance. This study shows that Islamic bank customers are satisfied if the employees can show empathy responsive to customer needs, and can guarantee as well as create a sense of security for customers of the capabilities of Islamic bank employees. This research is in line with past study [6]. Economics has a positive and significant effect on customer satisfaction and loyalty with a coefficient of 0.22 with a significance of <0.01 for customer satisfaction, and a coefficient of 0.11 with a significance of 0.04 for loyalty, this is consistent with prior studies [1]. Based on the results of this study it can be seen that the costs set by banks have a direct effect to determine customer satisfaction and loyalty toward Islamic banks. This finding shows that most Islamic bank customers in Indonesia use Islamic banking services based on profit motives. In other words, they are more concerned with economic rational in choosing Islamic banks[15]. The image of Islamic banks has a positive and significant effect on customer satisfaction with a coefficient of 0.29 with significance p <0.01. However, image does not have a significant effect on loyalty as indicated by the coefficient of 0.04 with a significance of 0.23. This research is in line with previous researchers [25]. It shows that even though the reputation of Islamic banks looks good in society, not all customers are loyal to the bank. This finding strengthens the research conducted by [25] which states that to remain a customer and to recommend Islamic banks to others does not depend on the image of the banks. Customer satisfaction has a positive and significant effect on loyalty as indicated by the coefficient of 0.30 with significance <0.01. Therefore customer satisfaction is the top priority that must be achieved by the bank because it is the strongest predictor of loyalty [1].

4. Conclusion

In general, the results of this study indicate that service quality, economic and image influence customer satisfaction, but image does not affect loyalty. This finding shows that although the bank’s reputation is considered good, it does not make customers necessarily loyal to the bank. Customers will be more loyal if the employees of Islamic banks can give the best services. Moreover, the reasonable
and affordable costs charged to customers can also satisfy them and create a sense of loyalty from time to time to Islamic banks. Therefore, Islamic banks must be able to improve their quality, especially in serving customers. The employees must be able to increase their reliability and apply more Islamic principles in serving customers so that the main characteristics of Islamic banks can be seen. Finally it will create a good impression and increase customer trust to remain a customer because the main competitors of Islamic banks are not only from conventional banking but also from fellow Islamic banking industry.

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