


**CUSTOMER LOYALTY ISLAMIC BANKS IN INDONESIA: SERVICE QUALITY WHICH MEDIATED BY SATISFACTION AND CUSTOMER TRUST**

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ARTICLE INFO	ABSTRACT
<p><b>Article history:</b></p> <p><b>Received</b> 31 January 2023</p> <p><b>Accepted</b> 18 April 2023</p>	<p><b>Purpose:</b> This study aims to analyze the effect of service quality on loyalty mediated by customer satisfaction and trust. A total of 215 Islamic bank customers in the study area were sampled accidentally.</p>
<p><b>Keywords:</b></p> <p>Service Quality; Satisfaction; Trust; Loyalty; Islamic Bank.</p>	<p><b>Theoretical framework:</b> Theoretically, this study contributes to the gaps in the literature, especially those related to the effect of SQ on Islamic banking loyalty which is mediated by satisfaction and trust simultaneously in one research title. Practically, encouraging Islamic banking management to design SQ programs that integrate the value of satisfaction and trust in the same cultural background to gain customer support and loyalty</p>
	<p><b>Design/methodology/approach:</b> There are four latent variables observed; service quality, satisfaction, trust, and loyalty with the number of indicators respectively six, four, three, and four. Data collection was carried out through interviews using a questionnaire. Data were analyzed using Smart-PLS 3.0. The validity test uses <i>factor loading</i> and AVE ( <i>Average Variance Extracted</i> ), the reliability test uses <i>Composite reliability</i> (CR) and <i>Cronbach's Alpha</i> (CA), the direct effect test uses the path analysis matrix, while the indirect effect test uses the <i>specific indirect effects matrix</i>.</p>
	<p><b>Findings:</b> The volume of research has been increasing over the past nineteen years, although there are only a few authors, institutions and reference journals contributing to the topic's consolidation and the countries conducting the most joint research in co-authoring for the largest volume of publications, authors and impact journals.</p>
	<p><b>Research, Practical &amp; Social implications:</b> This study concludes that customer loyalty of Islamic banks in Indonesia can be optimized through service quality which is mediated by customer satisfaction and trust.</p>
	<p><b>Originality/value:</b> The results of the analysis show that the factor loading value is &gt; 0.6 and the AVE value is &gt; 0.5 which means that the data is valid. CR and CA values &gt; 0.6 which means the data is reliable. The direct effect test shows that service quality, satisfaction and trust have a positive and significant effect (p-value &lt;0.05) on loyalty. Furthermore, service quality has an indirect effect ( <i>specific indirect effects</i>) on customer loyalty through the mediation of satisfaction and trust.</p>
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## LEALDADE DO CLIENTE BANCOS ISLÂMICOS NA INDONÉSIA: QUALIDADE DE SERVIÇO MEDIADA PELA SATISFAÇÃO E CONFIANÇA DO CLIENTE

### RESUMO

**Objetivo:** Este estudo tem como objetivo analisar o efeito da qualidade do serviço na lealdade mediada pela satisfação e confiança do cliente. Um total de 215 clientes de bancos islâmicos na área de estudo foram amostrados acidentalmente.

**Referencial teórico:** Teoricamente, este estudo contribui para as lacunas na literatura, especialmente aquelas relacionadas ao efeito do SQ na lealdade bancária islâmica que é mediada pela satisfação e confiança simultaneamente em um título de pesquisa. Praticamente, incentivando a gestão bancária islâmica a projetar programas SQ que integram o valor de satisfação e confiança no mesmo contexto cultural para obter suporte e fidelidade do cliente

**Desenho/metodologia/abordagem:** Existem quatro variáveis latentes observadas; qualidade do serviço, satisfação, confiança e lealdade com o número de indicadores respectivamente seis, quatro, três e quatro. A coleta de dados foi realizada por meio de entrevistas com aplicação de questionário. Os dados foram analisados usando Smart-PLS 3.0. O teste de validade usa carga fatorial e AVE ( Average Variance Extracted ), o teste de confiabilidade usa Confiabilidade Composta (CR) e Alfa de Cronbach (CA), o teste de efeito direto usa a matriz de análise de caminho, enquanto o teste de efeito indireto usa os efeitos indiretos específicos matriz.

**Resultados:** O volume de pesquisas vem aumentando nos últimos dezanove anos, embora existam poucos autores, instituições e periódicos de referência contribuindo para a consolidação do tema e os países que mais realizam pesquisas conjuntas em coautoria para o maior volume de publicações , autores e revistas de impacto.

**Implicações de pesquisa, práticas e sociais:** Este estudo conclui que a fidelidade do cliente de bancos islâmicos na Indonésia pode ser otimizada por meio da qualidade do serviço, que é mediada pela satisfação e confiança do cliente.

**Originalidade/valor:** Os resultados da análise mostram que o valor da carga fatorial é  $> 0,6$  e o valor do AVE é  $> 0,5$ , o que significa que os dados são válidos. Valores de CR e CA  $> 0,6$ , o que significa que os dados são confiáveis. O teste de efeito direto mostra que a qualidade do serviço, a satisfação e a confiança têm um efeito positivo e significativo (p-valor  $< 0,05$ ) na lealdade. Além disso, a qualidade do serviço tem um efeito indireto (efeitos indiretos específicos) na lealdade do cliente por meio da mediação da satisfação e da confiança.

**Palavras-chave:** Qualidade de Serviço, Satisfação, Confiança, Lealdade, Banco Islâmico.

## LEALTAD DEL CLIENTE BANCOS ISLÁMICOS EN INDONESIA: CALIDAD DEL SERVICIO MEDIADA POR LA SATISFACCIÓN Y LA CONFIANZA DEL CLIENTE

### RESUMEN

**Propósito:** Este estudio tiene como objetivo analizar el efecto de la calidad del servicio en la lealtad mediada por la satisfacción y confianza del cliente. Se tomaron muestras accidentalmente de un total de 215 clientes de bancos islámicos en el área de estudio.

**Marco teórico:** Teóricamente, este estudio contribuye a los vacíos en la literatura, especialmente aquellos relacionados con el efecto de SQ en la lealtad bancaria islámica que está mediada por la satisfacción y la confianza simultáneamente en un título de investigación. En la práctica, animar a la dirección de la banca islámica a diseñar programas SQ que integren el valor de la satisfacción y la confianza en el mismo trasfondo cultural para ganar el apoyo y la fidelidad de los clientes.

**Diseño/metodología/enfoque:** Hay cuatro variables latentes observadas; calidad del servicio, satisfacción, confianza y lealtad con el número de indicadores respectivamente seis, cuatro, tres y cuatro. La recolección de datos se llevó a cabo a través de entrevistas mediante un cuestionario. Los datos se analizaron utilizando Smart-PLS 3.0. La prueba de validez utiliza la carga factorial y AVE (varianza media extraída), la prueba de fiabilidad utiliza la fiabilidad compuesta (CR) y el alfa de Cronbach (CA), la prueba de efectos directos utiliza la matriz de análisis de ruta, mientras que la prueba de efectos indirectos utiliza los efectos indirectos específicos. matriz.

**Hallazgos:** El volumen de investigación ha ido en aumento en los últimos diecinueve años, aunque son pocos los autores, instituciones y revistas de referencia que contribuyen a la consolidación del tema y los países que más investigan en forma conjunta en coautoría para el mayor volumen de publicaciones , autores y revistas de impacto.

**Implicaciones de investigación, prácticas y sociales:** este estudio concluye que la lealtad de los clientes de los bancos islámicos en Indonesia se puede optimizar a través de la calidad del servicio, que está mediada por la satisfacción y la confianza del cliente.

**Originalidad/valor:** Los resultados del análisis muestran que el valor de la carga factorial es  $> 0,6$  y el valor AVE es  $> 0,5$  lo que significa que los datos son válidos. Valores CR y CA  $> 0,6$  lo que significa que los datos son confiables. La prueba de efecto directo muestra que la calidad del servicio, la satisfacción y la confianza tienen un

efecto positivo y significativo ( $p$ -valor  $<0,05$ ) sobre la lealtad. Además, la calidad del servicio tiene un efecto indirecto (efectos indirectos específicos) sobre la lealtad del cliente a través de la mediación de la satisfacción y la confianza.

**Palabras clave:** Calidad del Servicio, Satisfacción, Confianza, Lealtad, Banco Islámico.

## INTRODUCTION

Indonesia has the largest Muslim population in the world, so it has the potential to provide a broad market for Islamic-based financial products and services. Sharia Banking Statistics reports that in the last 3 years Islamic bank customers have grown by an average of 3.7% (Otoritas Jasa Keuangan, 2018). Meanwhile, CNN Indonesia (2021) reports that out of 180 million Muslim residents in Indonesia, only 30.27 million or 18.61% are customers of Islamic banks. It is reported that the market share of Islamic banks is currently around 16.17% of the total banking market share in Indonesia (Otoritas Jasa Keuangan, 2018). This shows that the market potential of Islamic banks in Indonesia that has not been explored is still wide.

However, detikFinance (2022) details the weaknesses of Islamic banks regarding service networks, capital, literacy and inclusion compared to conventional banks. Each network or service office of an Islamic bank is compared to 101,426 Indonesian residents, while conventional banks are compared to 7,951 (Otoritas Jasa Keuangan, 2018). Financial literacy in Islamic banking is 8.93%, conventional banks is 38%, while inclusion of Islamic banking is 9.1% and conventional banking is 76.2% (detikFinance, 2022). Literacy concerns public knowledge and awareness about the existence of Islamic banking products, while inclusion is a condition that allows everyone to be able to access and utilize existing financial products or services by customers (Hidayatullah & Puryandani, 2022). Furthermore, in terms of capital, Islamic banks are only IDR 47 trillion, while conventional banks reach IDR 1,360 trillion, Islamic banks distribute financing loans of IDR 422 trillion, far from conventional banking loans which reach IDR 5,897 trillion (Otoritas Jasa Keuangan, 2018). The main reason customers choose Islamic banking is because it is based on their religious beliefs (Abror, Patrisia, Engriani, Idris, & Dastgir, 2022; Souiden & Rani, 2015; Suhartanto, Gan, Sarah, & Setiawan, 2020). This is different from conventional banks which may only be profit oriented. Meanwhile Moosa & Kashiramka (2022) state that the main objective of managing Islamic banks is to achieve customer loyalty through their attitudes and behavior. Attitude loyalty describes the customer's attitude towards the company and towards other companies that offer the same service, while behavioral loyalty is represented by repurchasing behavior (Moosa & Kashiramka, 2022; Salem, Baidoun, & Walsh, 2019; Subagja, 2023). Loyal customers have

loyalty and commitment to support products or repurchase preferred products consistently in the future (Ebubedike, Mohammed, Nellikunnel, & Teck, 2022; Gadzali, 2023; Oliver, 1999).

Islamic banks has been discussed in various recent studies. It is reported that Service Quality (SQ) has a positive and significant direct effect on customer loyalty (Fida, Ahmed, Al-Balushi, & Singh, 2020; Haron, Abdul Subar, & Ibrahim, 2020; Islam, Ahmed, Rahman, & Al Asheq, 2021). In addition, SQ is also reported to have an indirect positive effect on loyalty which is mediated by satisfaction (Afifah & Kurniawati, 2021; Nunkoo, Teeroovengadam, Ringle, & Sunnassee, 2020) and trust (Albaity & Rahman, 2021; Alnaim, Sobaih, & Elshaer, 2022; Haron et al., 2020). According to Baranowski et al (1997), the use of mediating variables is intended to strengthen or optimize the role of the independent variable, in this case SQ on loyalty as the dependent variable.

Although the direct and indirect effects of SQ on loyalty are found in the same research field, namely in Islamic banking, the findings are summarized (summarized) from several different research titles, even with different cultural backgrounds. By addressing these issues, it is believed that consumers will be more aware of their rights in the eyes of Islamic law, which some argue accords more justice to consumers (Yazid, Z. E., Zainol, Z., & Bakar, J. A. (2023). Meanwhile, experts state that research results related to customer behavior and loyalty in Islamic banking cannot be generalized, and are difficult to apply at the company level due to cultural differences in each country (Abror et al., 2022; Altaf, Iqbal, Mokhtar, & Sial, 2017; Fauzi & Suryani, 2019; Kashif, Shukran, Rehman, & Sarifuddin, 2015; Yilmaz, Ari, & Gurbuz, 2018).

Accordingly, this study aims to estimate the effect of SQ on customer loyalty mediated by satisfaction and trust. In this study the mediators of satisfaction and trust are used simultaneously in one title/research activity. This pattern of relationship has not been seriously explored in previous studies (Afifah & Kurniawati, 2021; Albaity & Rahman, 2021; Alnaim et al., 2022; Fianto, Gan, Widiastuti, & Sukmana, 2020; Haron et al., 2020; Nunkoo et al., 2020). In particular, this study estimates three paths of relationship, namely; (1) direct relationship between SQ, satisfaction and trust in loyalty; (2) the direct relationship between SQ on satisfaction and trust; and (3) the indirect relationship (specific indirect effect) between SQ and customer loyalty mediated by satisfaction and trust. The banking in Iraq to build an offensive marketing strategy with the aim of increasing profits, which allows the possibility of investing in them by marketing expansion throughout Iraq (Hameed, T. M., & Bouabid, A., 2023).

Theoretically, this study contributes to the gaps in the literature, especially those related to the effect of SQ on Islamic banking loyalty which is mediated by satisfaction and trust simultaneously in one research title. Practically, encouraging Islamic banking management to design SQ programs that integrate the value of satisfaction and trust in the same cultural background to gain customer support and loyalty.

## **Literature Review**

### **Loyalty**

Customer loyalty is variously defined, but one of the most popular definitions used is that of Oliver (1999), where loyal customers have loyalty and commitment to repurchase or support a preferred product consistently in the future. Furthermore (Fianto et al., 2020; Mujafar Syah, Li, Syukur, Adhitra, & Rosman, 2022; Oliver, 1999; Omoregie, Addae, Coffie, Ampong, & Ofori, 2019; Salem et al., 2019), distinguishes customer loyalty into two dimensions, namely, loyalty attitude (willingness to recommend services to others) and loyalty behavior (repeat purchase). Thus, loyal customers can be measured through attitudes and behaviors that like products, repeat and increase their purchases, recommend services and products to potential customers, disseminate positive experiences to others so that they become a source of word of mouth advertising (Adiwijaya & Subagio, 2017; Fusva et al., 2020; Krishnan, 2021; Oliver, 1999; Suhartanto et al., 2020; Wu, Cheng, & Hussein, 2019).

Maintaining customer loyalty is often given greater priority than acquiring new customers. Retaining existing customers is much easier and cheaper than attracting new customers. The ways that are often used by managers to increase loyalty include increasing SQ, satisfaction and trust (Omoregie et al., 2019; Tegambwage & Kasoga, 2022). Departing from this description, this study highlights the role of SQ on customer loyalty both directly and through satisfaction and trust as mediators.

### **Satisfaction**

Customer satisfaction is defined as a comparison between expectations and perceived performance (Afifah & Kurniawati, 2021; Fornell, Morgeson, Hult, & VanAmburg, 2020). Customers can experience one of the following three levels of satisfaction. If the perceived performance is below expectations, then the customer is dissatisfied, is satisfied if the performance is in line with expectations, and is very satisfied when the performance exceeds

expectations. Satisfied customers will be loyal longer, buy more, be less price sensitive and give good comments about the company (Moosa & Kashiramka, 2022; Xu & Li, 2016).

The dimensions of satisfaction that are often used are; satisfaction with products, services, and satisfaction with the convenience of transaction facilities (Adiwijaya & Subagio, 2017; Fornell et al., 2020; Moosa & Kashiramka, 2022; Papaioannou, Assimakopoulos, Sarmaniotis, & Georgiadis, 2013; Rita, Oliveira, & Farisa, 2019). Several studies report that satisfaction has a positive and significant effect on loyalty (Fauzi & Suryani, 2019; Haron et al., 2020; Kashif et al., 2015; Moosa & Kashiramka, 2022; Sayani, 2015). In relation to that, this study builds a hypothesis.

*H1: Satisfaction has a positive and significant effect on loyalty*

## **Trust**

Customer trust is defined as a form of customer thoughts, feelings, emotions, or behavior that service/product providers can rely on to act in their best interest (Abror et al., 2022; Hasnain, 2019; Li, Teng, & Chen, 2020). Meanwhile, another definition states that it is the customer's belief that banking management will not do anything that is detrimental to him as a customer (Al Qundus, Paschke, Kumar, & Gupta, 2019). Customer trust comes from positive perceptions of products/services provided by banks (Hasnain, 2019; Hidayat, Wijaya, Ishak, & Endi Catyanadika, 2021). The better the service provided by the company, the better the customer's perception of the company. Conversely, customers will lose trust when they receive services that are not of high quality. Trust has been recognized as important in influencing customer loyalty. If one party believes in a particular brand, then the party that believes will build an attitude and behavior in the form of a positive buying interest in the product. Dimensions of customer trust include integrity (honesty and commitment or ability to keep promises), benevolence (attention, motivation, or good intentions to act in accordance with the interests of customers), competency (ability to fulfill the trust of customers who believe in it (Adiwijaya & Subagio, 2017; Al Qundus et al., 2019; Oliveira, Alhinho, Rita, & Dhillon, 2017). Previous studies reported that trust affects customer loyalty (Albaity & Rahman, 2021; Ricadonna, Saifullah, & Prasetyoningrum, 2021). In relation to that, this study proposes the following hypothesis.

*H2: Trust has a positive and significant effect on loyalty*

### **SQ Affects Loyalty**

SQ is basically a service level that can meet customer needs and expectations (A. Parasuraman, Valarie A. Zeithaml, 1985; Othman & Owen, 2001). Furthermore, Parasuraman et al (1985) broke down SQ into 5 dimensions namely; *reliability, assurance, responsiveness, empathy, and tangibles*. This can be interpreted that quality services must reflect these five dimensions. Then Othman & Owen (2001) added one more dimension, specifically for Islamic banking, namely compliance so that it becomes six dimensions. Othman & Owen (2001) explained the reason for adding this compliance is because both customers and banks must comply and comply with the required Islamic law.

The dimensions of the quality of Islamic banking services (A. Parasuraman, Valarie A. Zeithaml, 1985; Othman & Owen, 2001). are *compliance, assurance; reliability, tangibles, empathy, and responsiveness* which is often abbreviated as CARTER. Previous studies have reported from various sources that Islamic banking SQ has a positive and significant effect on customer loyalty (Afifah & Kurniawati, 2021; Dandis & Wright, 2020; Haron et al., 2020; Islam et al., 2021). In this regard, the hypothesis that will be proven in this study is:

*H3: SQ has a direct effect on loyalty.*

### **SQ Influence on Satisfaction**

SQ is basically aimed at customer satisfaction, so satisfaction has a strong influence on customer loyalty (Monferrer, Moliner, & Estrada, 2019; Moosa & Kashiramka, 2022). Several previous studies have explained that SQ has a direct and positive effect on customer satisfaction (Afifah & Kurniawati, 2021; Ahmed, Mohiuddin, Rahman, Tarique, & Azim, 2022; Fianto et al., 2020; Haron et al., 2020; Nunkoo et al., 2020; Rita et al., 2019). Therefore, this study proposes the following hypothesis.

*H4. SQ has a direct effect on satisfaction*

### **SQ Affects Trust**

Islamic banks apply the principle of religiosity-based management, where religiosity plays an important role in customer trust (Abror et al., 2022). These religious values are relevant and in line with the dimensions of trust which emphasize commitment (integrity), good faith (benevolence) and reflect competence (Al Qundus et al., 2019; Oliveira et al., 2017). Likewise the SQ dimension version (A. Parasuraman, Valarie A. Zeithaml, 1985; Othman & Owen, 2001) has a direct and indirect relationship with trust (Boonlertvanich, 2019). From various previous

studies it has been reported that service quality has a direct and positive effect on trust customers (Abror et al., 2022; Adiwijaya & Subagio, 2017; Alfiyanto, Indriani, & Perdhana, 2020; Fauzi & Suryani, 2019; Hasnain, 2019; Oliveira et al., 2017). Thus the proposed hypothesis is as follows

*H5: SQ has a direct effect on trust*

***Specific indirect effects in the link of Service Quality towards loyalty  
(Specific indirect effect in SQ relationship to loyalty)***

In the Islamic banking industry, customer satisfaction and trust play an important role in strengthening the relationship between SQ and loyalty (Alnaim et al., 2022; Damberg, Schwaiger, & Ringle, 2022). This means that SQ, customer satisfaction and trust are identified as factors that build loyalty. This is in line with previous studies which reported that satisfaction and trust indirectly play a role in linking SQ with customer loyalty (Haron et al., 2020; Ricadonna et al., 2021). Recent studies reinforce this finding that satisfaction and trust can optimize the relationship between SQ and Islamic banking customer loyalty (Alnaim et al., 2022; Boonlertvanich, 2019; Damberg et al., 2022; Kesuma, Yunus, Siregar, & Muzammil, 2021). Departing from the description, this study proposes the following hypothesis

*H6: SQ has an indirect effect on loyalty through roles Satisfaction.*

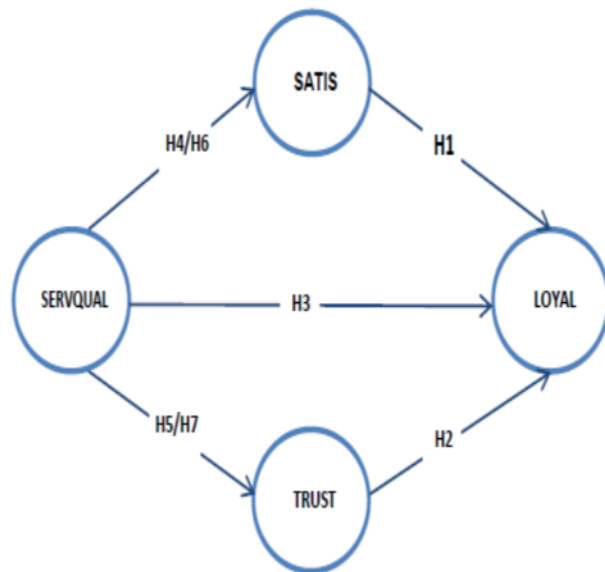
*H7: SQ has an indirect effect on loyalty through roles trust*

**Framework of Mind (Frame Work)**

Based on the literature review described previously, the framework for this study can be presented as Figure 1 below.



Image 1. Framework and Hypotheses



## RESERCH METHODS

### Time and place

This study was carried out in Makassar City, South Sulawesi. Held for 7 months from January to July 2022.

### Population and Sampling

The population in this study are all customers from various banks who have used Islamic banking products/services for at least one year or more. The population size is unknown, so that the sample size is determined using a minimum of ten times the estimated number of indicator variables (Hair et al. 2014). The indicators in this study amounted to 17 items, so the number of samples determined at random was at least 170. However, to obtain better results, we used a sample size of 215, which is about 26% above the minimum value requirement.

### Variables and Scales of Measurement

The observed variables are; service quality, satisfaction, trust and customer loyalty. This variable is a latent variable that cannot be measured directly, so an indicator is needed that can reflect the size of the latent variable, Table 1.

Table 1. Latent variables and indicators for causal measurement models with SEM-PLS

Latent Variables	Indicators/statements	Measurement Scale
Loyalty (LOYAL) (Krishnan, 2021; Oliver, 1999; Wu et al., 2019)	<ol style="list-style-type: none"> <li>1. I always use sharia banking services (LOYAL-1),</li> <li>2. I like sharia banking products (LOYAL-2)</li> <li>3. I still choose sharia banking products (LOYAL-3)</li> <li>4. I often recommend products sharia banking to others (LOYAL-4)</li> </ol>	Ordinal
Satisfaction (SATIS) (Moosa & Kashiramka, 2022; Papaioannou et al., 2013; Rita et al., 2019)	<ol style="list-style-type: none"> <li>1. I am satisfied because the product meets expectations (SATIS-1)</li> <li>2. I feel satisfied because the bank 's service is pleasant (SATIS-2)</li> <li>3. I feel satisfied because of the convenient bank facilities (SATIS-3)</li> </ol>	Ordinal
Trust (TRUST) (Adiwijaya & Subagio, 2017; Al Qundus et al., 2019; Hasnain, 2019; Oliveira et al., 2017)	<ol style="list-style-type: none"> <li>1. I believe because the bank is proven to have good intentions ( Benevolence) serving the interests of customers (TRUST-1)</li> <li>2. I believe because the bank has proven to fulfill the commitment (TRUST-2)</li> <li>3. I believe because the bank is proven to have competence (ability) in meeting consumer needs (TRUST-3).</li> </ol>	Ordinal
Service Quality (SERVQUAL); (Parasuraman et al., 1985; Othman and Owen, 2001; Fauzi and Suryani , 2018; Dandis and Wright, 2020)	<ol style="list-style-type: none"> <li>1. I feel comfortable doing transactions at Islamic banks (SERVQUAL-1)</li> <li>2. The bank has provided services according to my needs (SERVQUAL-2)</li> <li>3. Timely banking services (SERVQUAL-3)</li> <li>4. Banks are quick to explain things I don't know (SERVQUAL-4)</li> <li>5. The bank pays attention to my interests (SERVQUAL-5)</li> <li>6. Clean and tidy bank room (SERVQUAL-6)</li> </ol>	Ordinal

Source: Prepared by the authors (2022)

## Instruments and Data Collection

Data collection was carried out by in-depth interviews using a questionnaire to 215 respondents. Observation and recording of objects and documents that support research.

## Data Analysis and Assessment Criteria

The analytical method used in this study is Structural Equation Modeling (SEM), using the SmartPLS 3 program. The analysis of this model is divided into two, namely the measurement model ( *outer model* ) and the structural model ( *inner model* ). The measurement model, in principle, tests the validity and reliability of indicators of all latent variables . Validity test using *outer loading and Average Variance Extracted (AVE)*. while the reliability test uses CR ( *Composite reliability* ) and CA ( *Cronbach's Alpha* ). Test criteria can be seen in Table 2.

Table 2. Outer Model and Inner Model Test

Test models	Criteria
<b>Validity test using Outer Loading and AVE</b>	
1. Outer loading is a value that describes the relationship (correlation) between an indicator and its latent variable.	1. Outer loading value $\geq 0.6$ is acceptable. This means that all indicators have a very strong relationship with their latent variables
2. The AVE test (Average variance extracted) explains how much a latent variable can explain the variance of its indicators	3. AVE $> 0.5$ means that a latent variable can explain the variance of the indicators by more than 50%.
<b>Reliability test using CR and CA</b>	
1. CR (Composite reliability) measures reliability by taking into account the extent to which latent variables explain its indicators	4. CR $\geq 0.6$ is considered reliable
2. CA (Cronbach's Alpha) measures the lower limit of reliability	CA value $\geq 0.6$ is considered reliable
<b>Direct Effect Hypothesis Test</b>	
H1: The effect of satisfaction on loyalty	Significant p-value $< 0.05$
H2: The Effect of Trust on Loyalty	Significant p-value $< 0.05$
H3: Effect of Service Quality on Loyalty	Significant p-value, 0.05
H4: Effect of Service Quality on Satisfaction	Significant p-value $< 0.05$
H5: Effect of Service Quality on Trust	Significant p-value $< 0.05$
<b>Indirect Effect Test (Specific Indirect Effects)</b>	
H6: Indirect Effect of Service Quality towards Loyalty through Satisfaction	Significant p-value $< 0.05$
H7: Indirect Effect of Service Quality on Loyalty through Trust	Significant p-value $< 0.05$

Source: Prepared by the authors (2022)

## RESULTS AND DISCUSSION

### Respondent Profiles

Table 3. Profile of Respondents

Variable	Description	frequency	%
Gender	Male	129	60.00
	Famale	86	40.00
age	17-30 years	15	6.98
	30-40 years	32	14.88
	40-50 years	75	34.88
	>50 years	93	43.26
Marital status	Single	12	5.58
	Maried	192	89.31
	Other	11	5.11
Education	<High school	11	5.12
	Bachelor/Diploma	123	57.21
	Masters	67	31.16
	Ph. D	14	6.51
Job Position	Student	15	6.98
	staff	105	48.84
	manager	23	10.70
	Entrepreneur	72	33.49
Income level (per month)	<300USD	10	4.65
	301-500USD	44	20.47

501-700USD	129	60.00
>700USD	32	14.88

Source: Prepared by the authors (2022)

Table 3 reports that the sample of this study consisted of 60 % male and 40% female. The results in terms of age show that the highest number of customers at 43.26% are over 50 years old, followed by the age group between 40-50 years at 34.88%; then 30-40 as much as 14.88%; and the lowest is the 17-30 year age group of 6.98%. Most of the respondents were married 89.31% compared to those who were not married 5.58%. As many as 57.21% of respondents have attained a bachelor's degree, followed by 31.16 % who hold a master's degree, and around 6.51% who hold a PhD. Related to work, the highest number of respondents worked as employees (staff) 48.84 %; following entrepreneurship 33.49 %, then managers 10.70%. Meanwhile, the highest income of respondents at 60% was at a level between 501-700 USD, followed by an income level between 301-500 USD at 20.47%, then > 700 USD at 14.88 and the lowest at 4.65 % was an income level <300 USD.

## Validity and Reliability Test

### Validity

Validity in research is a measure that shows the level of accuracy or validity of a measuring instrument so that it really measures what should be measured (Peeters and Harpe, 2019). This study uses two types of validity measures, namely convergent validity and discriminatory validity. This convergent validity uses the *outer loading* value, the value that explains the relationship (correlation) between an indicator and its latent variable, with conditions.

The higher the outer loading, the closer the relationship between an indicator and its latent variables. Outer loading value > 0.6 can be considered for acceptance (Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014). Table 3 and Figure 2 show that all outer loading values are above 0.6 (> 0.6), which means that all indicators of the four latent variables used in this study are valid.

The discriminant validity used in this study is Average variance extracted (AVE), namely the average value that explains how much a latent variable or construct can explain the variance of its indicators. The AVE value > 0.5 means that a latent or construct variable has absorbed more than 50% of the information from its indicators. The minimum limit of AVE is 0.5, that is, the value of AVE > 0.5 is acceptable. Based on the data in Table 3, it is known that

all AVE values of the four latent variables are above 0.5 ( $> 0.5$ ) indicating that the latent variables of service quality, satisfaction, trust, and loyalty have absorbed the variance of each indicator  $> 50\%$ .

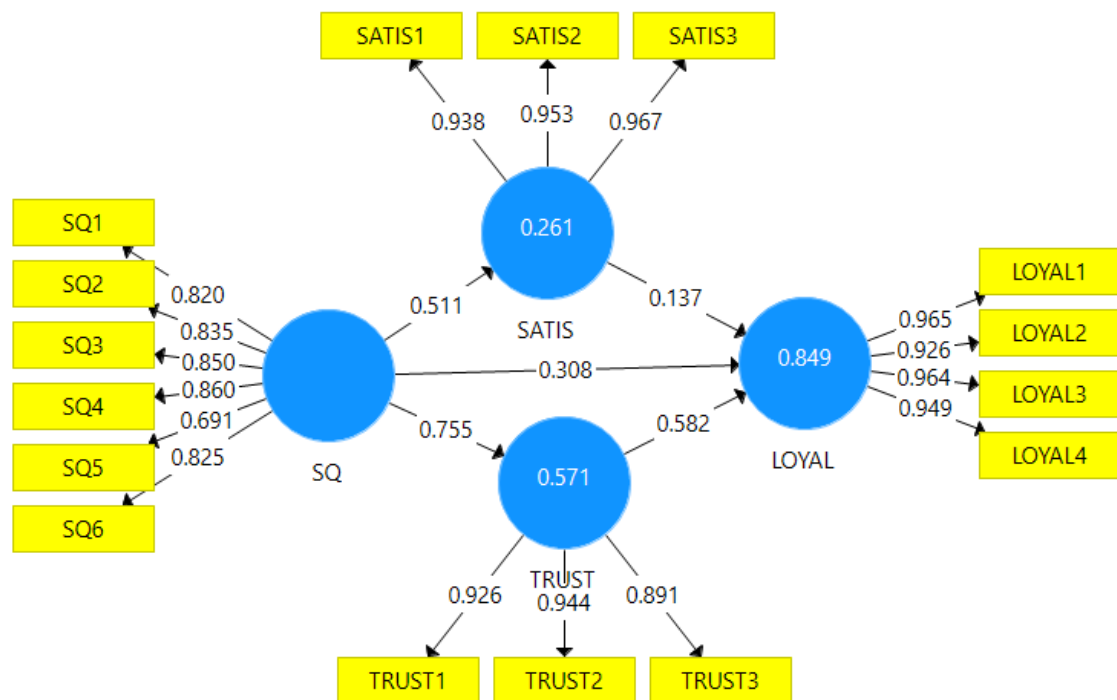
Table 4. Validity and Reliability Test Results

Constructs/Indicators	validity		reliability	
	loading	AVE	CR	ca
Loyalty (LOYAL):		0.905	0.974	0.965
1 I always use sharia banking services (LOYAL1).	0.965			
2 I like sharia banking products (LOYAL2)	0.926			
3 I still choose sharia banking products (LOYAL3)	0.964			
4 I often recommend sharia banking products to others (LOYAL4)	0.949			
Satisfaction (SATIS):		0.908	0.967	0.949
1. I am satisfied because the product meets expectations (SATIS1)	0.938			
2. I am satisfied because the bank 's services meet expectations (SATIS2)	0.953			
3. I feel satisfied because the product is easily accessible (SATIS3)	0.967			
Trust (TRUST)		0.847	0.943	0.910
1. I believe because the bank is proven to have good intentions (benevolence ) serving the interests of customers (TRUST1)	0.926			
2. I believe because the bank has proven to fulfill the commitment (TRUST2)	0.944			
3. I believe because the bank is proven to have competence in meeting consumer needs (TRUST3).	0.891			
Service Quality (SERVQUAL)		0.665	0.922	0.901
1. I feel comfortable doing transactions at Islamic banks (SERVQUAL1)	0.820			
2. The bank has provided services according to my needs (SERVQUAL2)	0.835			
3. Timely banking services (SERVQUAL3)	0.850			
4. The bank is quick to explain things I don't know (SERVQUAL4)	0.860			
5. The bank pays attention to my interests (SERVQUAL5)	0.691			
6. Clean and tidy bank room (SERVQUAL6)	0.825			

Note ; The *Goodness of Fit Test* was carried out using the SRMR (Standardized Root Mean Square Residual) value and obtained a value of  $0.15 > 0.08$  which means Model Fit (Hu and Bentler, 1999).

Source: Prepared by the authors (2022)

Figure 2. Graph of SEM-PLS Validity and Reliability Analysis Results



Source: Prepared by the authors (2022)

### Reliability

Reliability shows the accuracy, consistency and precision of a measuring instrument in making measurements. The reliability test in PLS can use two methods, namely Composite Reliability (CR) and Cronbach's Alpha (CA). CR measures the actual reliability value of a construct while CA measures the lower bound reliability value. But both have been used as a measure of reliability in this study. The criterion for the CR value that is accepted is  $\geq 0.6$  where this value is seen to have indicated that each indicator of the latent variable has answered correctly and accurately one question item (unidimensional). While the criteria used for CA values that are considered reliable are  $> 0.6$  (Latan & Ghazali, 2014).

From the description above it is known that from the convergent validity test using outer loading on 16 indicators, a value of  $\geq 0.6$  is obtained, which means that all indicators are declared valid. The discriminant validity test with AVE shows that the four latent variables have a value of  $AVE > 0.5$  which is also interpreted as valid. The reliability test using CR and CA obtained results  $\geq 0.6$  for CR and CA respectively. Thus it can be stated that the data from this study are valid and reliable to use for further analysis.

### Direct and Indirect Effects (*Direct and Specific Indirect Effects*)

The results of hypothesis testing for direct and indirect effects (*specific indirect effects*) of each research variable are presented in Table 5.

Table 5. Hypothesis Test Results for Direct and Indirect Effects (Specific Indirect Effects)

hypothesis	Direct and Indirect Influence	Original Sample (O)	Statistics T (O/STDEV)	P-Value	Desicion
<b><i>Direct Effect )</i></b>					
H1	SATIS→LOYAL	0.137	3,055	0.002	accepted
H2	TRUST→LOYAL	0.582	4,989	0.000	accepted
H3	SQ→LOYAL	0.308	3,605	0.000	accepted
H4	SQ→SATIS	0.511	5,081	0.000	accepted
H5	SQ→TRUST	0.755	19,647	0.000	accepted
<b><i>Specific Indirect Effects</i></b>					
H6	SQ→SATIS→LOYAL	0.070	2092	0.037	accepted
H7	SQ→TRUST→LOYAL	0.440	4,605	0.000	accepted

Source: Prepared by the authors (2022)

### Direct Effect (*Direct Effect*)

#### *The Influence of SQ, Satisfaction and Trust on Loyalty*

Statistical analysis shows that the factor that has the strongest influence on loyalty is trust (H2) coefficient 0.582; followed by SQ (H3) coefficient of 0.308 and satisfaction (H1) coefficient of 0.137. Thus the current research position is. *First*; accept the proposition that customer trust has a positive and significant effect on loyalty (Abror et al., 2022; Albaity & Rahman, 2021; Alfiyanto et al., 2020; Oliveira et al., 2017; Peng, Moghavvemi, & Teng, 2019; Ricadonna et al., 2021). *Second*; agree with the results of previous research which reported that SQ has a positive and significant effect on customer loyalty in Islamic banks. (Afifah & Kurniawati, 2021; Haron et al., 2020; Omoregie et al., 2019; Suhartanto et al., 2020; Tegambwage & Kasoga, 2022; Wu et al., 2019). *Third*; consistent with previous studies that satisfaction has a positive and significant effect on loyalty (Fauzi & Suryani, 2019; Haron et al., 2020; Kashif et al., 2015; Moosa & Kashiramka, 2022; Sayani, 2015; Syarif, 2019). In addition, the findings of the current study explain that customer loyalty increases in line with increasing SQ, trust and or satisfaction.

Islamic banks were established with a special purpose, namely without interest/usury, and their management uses the principles of Islamic law. On the other hand, the customer community's interest is also based on Islamic teachings and values that they believe in (Abror et al., 2022; Souiden & Rani, 2015; Suhartanto et al., 2020). In other words, there is a common goal (*shared vision*) between banking and customers. Therefore, a bank that is consistent with its founding goals will provide excellent SQ services, pay attention to satisfaction and trust,

thus providing a positive and significant influence on customer loyalty according to current research. It should be noted that the measures of customer satisfaction and trust refer to past experiences, while customer loyalty is forward-looking. That is, customer loyalty requires preconditions from SQ, satisfaction and trust to grow and develop to a higher level (Tegambwage & Kasoga, 2022). This description is in line with the results of previous studies which reported that the antecedents or causes of customer loyalty are SQ, satisfaction, and trust (Wu et al., 2019).

### **The Influence of SQ, on Trust and Satisfaction**

#### ***Trust***

Statistical results show that SQ has a strong, positive and significant influence on trust (H5) with a coefficient of 0.755. The current research status is in line with the findings of previous studies which reported a positive and significant effect of SQ on trust (Boonlertvanich, 2019; Fauzi & Suryani, 2019). The higher the SQ, the higher the customer's trust, and vice versa.

Trust is the belief that customers have that the bank will not do anything that risks harming them as customers (Al Qundus et al., 2019). Customer trust comes from positive perceptions or impressions of SQ given by banks as service providers (Hidayat et al., 2021). The better the service provided by the company, the better the customer's perception of the company. Conversely, customers will lose trust when they receive services that are not of high quality.

Islamic banking is a financial institution that was established and administered based on Islamic religious values (Moosa & Kashiramka, 2022). The dimensions used to measure trust are integrity, benevolence (good faith), and competence, which are also in line with Islamic values (Adiwijaya & Subagio, 2017; Al Qundus et al., 2019; Oliveira et al., 2017). Meanwhile, the consideration of consumers to become customers is also based on Islamic teachings (Shome, Jabeen, & Rajaguru, 2018). So that it can be said that if the banking sector has integrity or commitment to the purpose of its establishment, then customer perception and trust will increase. Recent findings report that religiosity is a mediator that strengthens and causes trust (Abror et al., 2022).

#### ***Satisfaction***

Furthermore, statistical results also show that SQ has a positive and significant effect on



satisfaction (H4) with a coefficient of 0.511. This shows that the higher the SQ, the higher the perceived satisfaction of the customer, and vice versa. The current research position is consistent with the results of previous studies which state that SQ has a positive and significant effect on satisfaction (Afifah & Kurniawati, 2021; Ahmed et al., 2022; Boonlertvanich, 2019). Customers are the main reason for the sustainability of all businesses including Islamic banking, without customers means without buyers. Therefore, the customer has a very important position, so that every business, including Islamic banking, tries to fulfill customer satisfaction. Satisfied customers provide a great opportunity to re-purchase and become loyal customers (Oliveira et al., 2017).

It should be emphasized that the SQ dimension used in this study is called CARTER (*Compliance, Assurance, Reliability, Tangibles, Empathy and Responsiveness*), specially formulated for Islamic banking services (Othman & Owen, 2001). Meanwhile, customers are Muslim communities who want to be served according to with their teachings and beliefs. Thus, if Islamic banking really implements SQ in accordance with CARTET, as the current study shows, then customers will be satisfied and loyal. This confirms the opinion (Dandis & Wright, 2020; Fauzi & Suryani, 2019) which states that the CARTER model's SQ has a positive and significant effect on satisfaction. Also Murrar et al (2021) who reported that the SQ dimension explains as much as 59% of customer satisfaction variations, and the remaining 41% is explained by other factors outside of SQ. Meanwhile Moosa & Kashiramka (2022) reinforces that the goal of Islamic banking is customer satisfaction and loyalty.

### ***(Specific Indirect Effects)***

Another aim of this research is to examine the indirect relationship between SQ and loyalty through the mediating role of customer satisfaction. Table 5 shows that satisfaction (SATIS) shows a significant positive indirect relationship (p-value <0.05) between SQ and loyalty with a coefficient of 0.070. It can be interpreted that satisfaction plays an important role in mediating SQ with loyalty. This finding is in line with previous studies which confirmed that satisfaction as a mediator has optimized the effect of SQ on loyalty (Afifah & Kurniawati, 2021; Fianto et al., 2020; Nunkoo et al., 2020). Furthermore, this study also examines the indirect relationship between SQ and loyalty through the mediating role of customer trust. The results show that trust (TRUST) has a positive and significant indirect relationship (p-value <0.05) between SQ and loyalty with a coefficient value of 0.440. This finding supports the proposition of previous researchers who confirmed that trust strengthens the effect of SQ on loyalty (Albaity

& Rahman, 2021; Alnaim et al., 2022; Haron et al., 2020).

It should be emphasized that the position of the mediating variable in the system can basically strengthen or weaken SQ as an independent variable. However, based on statistical tests, in this study it was found that the two mediating variables, satisfaction and trust play a role in strengthening the relationship between SQ and loyalty. This explains that customer satisfaction and trust are needed to build a strong, positive and significant relationship between SQ and loyalty. In addition, it also implies that SQ practiced in Islamic banking must truly reflect customer satisfaction and trust.

### **Research Implications**

Theoretically the results of this study have implications that SQ, besides being able to contribute directly to loyalty, is also able to contribute indirectly through customer satisfaction and trust. This shows that the role of satisfaction and trust as mediators can be positively relied upon to optimize the influence of SQ towards customer loyalty. Managerially, Islamic banking needs to consider developing SQ which is able to construct loyalty, as well as satisfaction and trust. This is necessary so that banks obtain strong support from customers before finally becoming loyal customers.

### **Recommendations for Future Research**

Although this study found that SQ influences customer loyalty, satisfaction and trust, further research is needed to partially examine the SQ dimension that contributes the most. This is needed as a managerial reference for Islamic banking to build and develop SQ dimensions that can contribute to loyalty, as well as to satisfaction and trust.

### **CONCLUSIONS**

From this study it can be concluded that;

1. SQ, satisfaction, and trust have a direct, positive and significant effect on customer loyalty. This shows that the antecedents of customer loyalty are SQ, trust and satisfaction. Theoretically and managerially loyalty to Indonesian Islamic banking can be built through SQ, satisfaction and trust.
2. SQ also has a direct, positive and significant effect on satisfaction and trust. It can be interpreted that in theoretical and managerial perspective, SQ can be used not only to predict loyalty, but also to mobilize satisfaction and trust, so that Islamic banking

gains strong support from many customers, both from loyal customers, as well as customers who are just at the satisfied and trust stage. . This was stated considering that customer satisfaction and trust refer to the past, from what has been felt, while loyalty is oriented to the future, requiring a different duration of time.

3. Besides having a direct effect, SQ also has an *indirect effect* on loyalty through customer satisfaction and trust. This can be interpreted that satisfaction and trust can be used as mediators to optimize or strengthen the influence of SQ on customer loyalty.

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