

CHAPTER I

INTRODUCTION

A. Research Background

Quality of service has a positive effect on the bottom-line performance of a firm, which extends to the competitive advantages gained from improved quality (Paul et al., 2016). Therefore, many service providers and researchers in service marketing prioritize and focus their attention on the creation and delivery of quality services (Asnawi et al., 2020). Consequently, several researchers have established service quality as an important determinant of customer satisfaction which in turn influences customers' loyalty (Izogo and Ogba, 2015). When a firm delivers service quality that meets or exceeds customers' expectations, the possible result will be customer satisfaction and loyalty (Izogo and Ogba, 2015). The service quality model in the Six Sigma paradigm has emphasized the importance of customer perceptions and expectations according to their reality and needs (Gayatri and Chew, 2013).

For the Islamic financial services industry in Asia, it is facing serious marketing challenges such as a diverse customer base, high expectations, and higher competition among Islamic banks when it comes to attracting and retaining customers (Kamarulzaman and Madun, 2013). According to Alwi and Melewar (2013), the researchers believe that marketing strategies that are in accordance with the customer's characteristics are very important for Islamic banks to use to improve their service quality standards and to remain competitive. According to the OJK (2021) survey titled "*Laporan Perkembangan Keuangan Syariah Indonesia*",

the Indonesian Islamic financial services sector is divided into three sub-sectors: Islamic banking, Islamic non-bank financial industry, and Islamic capital markets. According to the OJK (2021), Indonesian Islamic banking has total assets of 693.80 trillion rupiah, indicating growth and the position of Islamic banking's resilience improving every year.

Table 1.1. The Growth of Islamic Banking Asset in Indonesia

Year	Assets (in billion IDR)		
	Islamic Commercial Bank / ICB	Islamic Business Unit / IBU	Total Assets
2020	397,073	196,875	593,948
2021	441,789	234,947	676,735
2022	531,860	250,240	782,100
2023	539,919	253,680	793,599

Source: Otoritas Jasa Keuangan, 2023

The growth of Islamic banking asset in Indonesia according to Islamic commercial bank and Islamic business unit are relatively good. According to the Otoritas Jasa Keuangan (2023), this fast growth and increasing market share shows that Islamic banking services are becoming trusted and popular among Indonesians.

One of the Islamic banks in Indonesia is Bank Syariah Indonesia (BSI) which was founded by the merger of PT Bank BRIsyariah Tbk, PT Bank Syariah Mandiri, and PT Bank BNI Syariah. BSI changed the dynamics of Islamic banking in Indonesia, establishing a new polarization and pillar of strength in the Indonesian

Islamic economy (Mahargiyantie, 2020). BSI is ranked first as the largest Islamic commercial bank in Indonesia based on total assets owned.

Table 1.2 Top 5 Islamic Banks in Indonesia 2024

Ranks	Bank Name	Assets (in Trillion IDR)
1	Bank Syariah Indonesia	357,903,623
2	Bank Muamalat	64,928,953
3	Bank Riau Kepri Syariah	30,029,440
4	Bank Aceh Syariah	28,197,926
5	BTPN Syariah	21,169,958

Source: Quarterly Financial Publication Report, March 2024

Based on BSI Annual Report book (2023), BSI won awards in the form of Best Islamic Bank in Indonesia (from Euromoney), The Indonesia Customer Experience of the Year (from Asian Business Review), and Best Islamic Finance Bank (from Alpha Southeast Asia) because BSI had assets of more than IDR 200 trillion.

Table 1.3. Total Assets of Bank Syariah Indonesia

Year	Total Assets (in Trillion IDR)
2021	265,289,081
2022	305,727,438
2023	353,624,124
March, 2024	357,903,623

Source: Bank Syariah Indonesia, 2024

BSI assets increased by 1.2% in March, 2024 compared to 2023. The data mentioned above indicates that BSI has gained a special place in the hearts of its customers. BSI has 1,039 branch offices and sub-branch offices in many provinces is in line with BSI's vision to provide access to Islamic financial solutions in Indonesia (BSI, 2023).

This research will be located in Yogyakarta, Indonesia. Because there are 2 BSI branch offices, 16 sub-branch offices and 1 cash office in the Yogyakarta area, and based on BAPPEDA Yogyakarta (2023), the majority of the population is Muslim.

Table 1.4 Number of BSI Branch Office in Indonesia

No.	Province	Total Branch Office
1	West Java	26
2	Nanggroe Aceh Darussalam	16
3	D.K. Jakarta	16
4	East Java	16
5	Central Java	12
6	D.I. Yogyakarta	2

Source: BSI Annual Report Book, 2023

In the previous research, according to Asnawi et al. (2020), the research only focused on 3 constructs: Service quality and customer satisfaction on customer loyalty in the context of Islamic bank in Indonesia. In the context of Islamic banking, the study contributes to the recent debate among service marketers about the use of various scales to measure service quality (Kashif et al., 2016). The service

quality concept, satisfaction, and the loyalty of consumers in the service marketing literature is very important and continually developed based on the characteristic of culture, country, religion, and socio-cultural factors where the service is offered (Gayatri and Chew, 2013). This finding increases the loyalty of the consumers using Islamic banks by optimizing the service quality and increasing consumer satisfaction based on the Muslim consumer perspective (Asnawi et al., 2020). According to the previous research, the research has confirmed that the scale of service quality in the context of Islamic banking is valid scale for measuring service quality from a Muslim perspective.

This research is modified replication from the previous research which is held by Asnawi et al. (2020), this research will adding Religiosity perception as independent variable, by adding this new variable, might produce more holistic findings to support the marketing strategy model of an Islamic bank in a Muslim country (Asnawi et al., 2018; Karami et al., 2014). The previous study only focused on 3 constructs: Islamic banking service quality (IBSQ), Muslim customer satisfaction (MCS), Muslim customer loyalty (MCL). Developing that research can be done by adding a new variable such as Religiosity (Karami et al., 2014; Asnawi et al., 2018). This research will be conduct in Yogyakarta and the object of this research is PT Bank Syariah Indonesia Tbk. The subject of this research is Bank Syariah Indonesia customers in Yogyakarta, Indonesia. This research aims to examine the effect of Islamic banking service quality and religiosity perception towards Muslim customer satisfaction and loyalty of BSI in Yogyakarta.

B. Research Question

According to the research title and the explanation given above, the problems to be identified include:

1. Does Islamic Banking Service Quality affect on Muslim Customer Satisfaction of Bank Syariah Indonesia?
2. Does Religiosity Perception affect on Muslim Customer Satisfaction of Bank Syariah Indonesia?
3. Does Islamic Banking Service Quality affect on Muslim Customer Loyalty of Bank Syariah Indonesia?
4. Does Religiosity Perception affect on Muslim Customer Loyalty of Bank Syariah Indonesia?
5. Does Muslim Customer Satisfaction affect on Muslim Customer Loyalty of Bank Syariah Indonesia?
6. Does Islamic Banking Service Quality influence on Muslim Customer Loyalty mediated by Muslim Customer Satisfaction of Bank Syariah Indonesia?
7. Does Religiosity Perception influence on Muslim Customer Loyalty mediated by Muslim Customer Satisfaction of Bank Syariah Indonesia?

C. Research Objective

The objective of this research include:

1. To determine the effect of Islamic Banking Service Quality on Muslim Customer Satisfaction of Bank Syariah Indonesia.

2. To determine the effect of Religiosity Perception on Muslim Customer Satisfaction of Bank Syariah Indonesia.
3. To determine the effect of Islamic Banking Service Quality on Muslim Customer Loyalty of Bank Syariah Indonesia.
4. To determine the effect of Religiosity Perception on Muslim Customer Loyalty of Bank Syariah Indonesia.
5. To determine the effect of Muslim Customer Satisfaction on Muslim Customer Loyalty of Bank Syariah Indonesia.
6. To determine the influence of Islamic Banking Service Quality on Muslim Customer Loyalty mediated by Muslim Customer Satisfaction of Bank Syariah Indonesia.
7. To determine the influence of Religiosity Perception on Muslim Customer Loyalty mediated by Muslim Customer Satisfaction of Bank Syariah Indonesia.

D. Research Benefit

1. Benefit for Academia

The result of this research can increase the theoretical foundation that was previously lacking in the perspective of religion and culture which is a consideration affecting service quality. This research is expected to provide benefits for the economic and business fields, especially marketing management as a source of information and reference for the completion of further similar research. With this research, the theory and knowledge that

has been gained during lectures in the field of marketing management can be implemented to study this case.

2. Benefit for Industry

The result of this study is expected to be useful as an evaluation material for the development of Islamic bank in Indonesia. The management of the bank can implement some of the suggested strategies to improve Muslim customer loyalty toward the products and services provided by sharia banks. Any Islamic bank can take advantage of the results of this study to provide services that are in accordance with the culture and values of Islam that their clients adhere to.