CHAPTER I

INTRODUCTION

1.1. Background of the study

The success of the existence of the Islamic economy in Indonesia can be measured by the development of Islamic banking. Bank Muamalat has implemented a sharia banking system because it is the first Islamic bank and the pioneer of other Islamic banks. Due to the monetary crisis that occurred in 1998, many conventional banks were unable to survive due to the failure of the interest system, resulting in liquidation. Meanwhile, Islamic banks can survive until now. Not only that, the end of 2008 there was a global financial crisis in which Islamic financial institutions still survived the crisis. Thus, Islamic financial institutions are stable and can provide convenient and secure benefits for shareholders, securities holders, financing customers and depositors of funds in the bank. Bank Muamalat Indonesia as proof of success through the crisis that occurred in 1998 by showing improved performance and did not receive any assistance from the government (Saleh et al., 2017; Suhartanto et al., 2019). In addition, Bank Muamalat Indonesia also made a profit of IDR 300 billion. So that in this crisis, Islamic banking shows that Islamic banks are able to survive theglobal financial crisis and can grow significantly.

Muslim customers are attracted to the Islamic banking industry because they are considered to be able to fulfill their banking service needs and fulfill their religious obligations (Kartika et al., 2019). Thus, Islamic banking is a dynamic form of the financial industry for some countries that are predominantly Muslim. The main target of Islamic banks is Muslim customers, but Islamic banks can also attract non- Muslim customers. However, Islamic banks are considered less well known and less experienced than conventional banks because they are still newcomers to the banking industry. Accordingly, improving business outcomes such as increased savings, future income, and lower operating costs is one of the important steps taken by Islamic banks to develop a loyal customer base to achieve a competitive advantage. From a

number of studies on customer loyalty in various industries, there are two problems that arise in the research, including banking. In the banking industry, the determinants of customer loyalty have been thoroughly researched in the literature and the general loyalty building blocks consisting of service quality, perceived value, corporate image, and previously achieved customer satisfaction (Boonlertvanich, 2019; Hamouda, 2019; Keisidou 2013). However, in previous studies there was little attention paid to the context of Islamic banking and more focus on conventional banks. This is because the different business approaches used by conventional banks, such as the loyalty model developed, are hardly compatible with loyalty in Islamic banking, especially the use of interest rates instead of value because profit and loss sharing is central.

Accordingly, in banking, it is necessary to examine the formation of loyalty.

In the literature it has been established that customer satisfaction and loyalty affect business performance. However, despite the strong relationship between satisfaction, loyalty, and business financial performance, recent research reports on research results by questioning whether business profitability can be increased by having satisfied and loyal customers (Golokova et al., 2019; Hegner-Kakar et al., 2018; Lariviere et al., 2016).

Accordingly, conduct further exploration into the impact of customer satisfaction and loyalty. The difference between Islamic bank customers and conventional banks is in terms of customer behavior not only based on the need for banking services but also based on religious values. Thus, in the study that found the relationship between satisfaction and loyalty to other businesses including conventional banks, it could not be generalized to Islamic banks and clients (Eklof et al., 2018; Lariviere et al., 2016). Overcome in the research, testing of the formation of satisfaction and its effect on customer satisfaction of Islamic banks. In this research try to:

- Assessing the antecedents of loyalty formation including service quality, image, perceived value and satisfaction; as well as
- Evaluate the impact of customer satisfaction on customer loyalty.

In this study, the focus is on Indonesian Islamic banks for two main reasons, namely:

- In the Indonesian banking industry that Islamic banks are a domicile of great power. In fact, Islamic banks represent a small part of the market, with a small asset base (5% of national banking assets), a small market share (4.6%) and since 2012, the growth of Islamic banks has been sluggish, as reported by The Indonesian Bank Sentral (2017).

- Indonesia is the country with the largest Muslim population with a large middle class, making it a huge potential market for Islamic banks. Se Taken together, these figures show that Indonesian Islamic bank shave not been able to tap into the market potential and an important pathway to future success for them with customer loyalty development.

1.2. Formulation of the Problems

Based on the research background above, the formulation of the problem in this research are as follows:

1. Does perceived value have positive effect on customer satisfaction in Islamic Banking?

2. Does perceived value have positive effect on customer loyalty in Islamic Banking

3. Does customer satisfaction mediate between perceived value and customer loyalty in Islamic banking?

4. Does image have positive effect on customer satisfaction in Islamic banking?

5. Does image have positive effect on customer loyalty in Islamic banking?

6. Does customer satisfaction mediate image and customer loyalty in Islamic banking?

7. Does customer satisfaction have positive effect on customer loyalty in Islamic banking?

1.3. Research Purposes

Based on the formulation of problems above, the purposes of this research are:

1.3.1. To analyze the influence of service quality, perceived value, and image on customer satisfaction in Islamic Banking

1.3.2. To analyze the influence of service quality, perceived value, and

image on customer loyalty in Islamic Banking

1.3.3. To analyze the influence of customer satisfaction on customer loyalty in Islamic Banking

1.4. Benefits of the Research

- For Company

It offers a way for Islamic bank managers to improve financial performance by increasing client loyalty which Islamic banks should offer economic benefits and services that are superior to those offered by other banks.

- For Theory Development

To find out that perceived value, service quality, and image of Islamic banks affect the level of customer satisfaction and affect the level of customer loyalty with an Islamic bank.

1.5. Systematics of the Research Writing

In writing of this research, various things will be discussed as follows:

Chapter 1: Introduction

This chapter includes an introduction which consists of a background of the study, Formulations of the problems, purposes of the research, benefit of the research, and the explanation of writing systematics.

Chapter 2: Literature Review

This chapter contains a theoretical background of the variables used in this study. They are a summary of previous studies, the hypothesis of the research, and the theoretical framework.

Chapter 3: Research Method

This chapter explains the methodologies of the research. It provides information about research design, population and sample, sampling method, operational definition, source of data, data collecting technique, instrument analysis, data analysis, and hypothesis testing.

Chapter 4: Data Analysis and Discussion

This chapter will explain Demographic characteristic of respondents, data analysis results and the discussion as the implication for this study.

Chapter 5: Conclusion

This last chapter covers summaries and the result of the research. It deals with the conclusion, research limitation, implication of the study, and research bibliography.