



UNIVERSITI TEKNOLOGI MARA

**FACTORS AFFECTING THE
LOYALTY OF CUSTOMERS IN
ISLAMIC BANKING: A CASE OF
BATU PAHAT, JOHOR.**

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ABSTRACT

Malaysia is known as the country with most develop Islamic banking system where it has become benchmark for other countries. However, despite the development of Islamic banking industry, people especially Muslims are still blurry or unaware with the wide range of existence in Islamic banking products and services. Instead, Islamic banks operating in Islamic countries are also faced with strong competition not only from Islamic banks but also from non-Islamic rivals (Naser and Moutinho, 1997). Hence, through this curiosity, as a researcher have conducted a research on customer loyalty towards Islamic banking. This research were conducted by distributing questionnaires to 100 respondents who are the customer of full fledge Islamic banks which consist of Islamic bank's account holder from the ages of 18 years old and above. The respondents comprised of people who lived around Batu Pahat city, Johor. Data analysis were conducted by using SPSS to determine the relationship between independent variables and dependent variables. This study provides a guide for Islamic bank management in Malaysia for enhancing customer loyalty by strengthening bank strategies to attract or maintain existing and new customers. Based on the findings of this research, the results shows that the service quality and trust are the key determinant that influences the customer loyalty towards Islamic banking. It is supported by Amin and Isa (2008) which the service quality has the positive significant relationship that affecting towards customer loyalty. Trust also shows a positive significant relationship that affects the loyalty of the customer towards Islamic banking (EM Kishada & Ab Wahab Senior Lecturer, 2013).

Keywords: Customer loyalty, Satisfaction, Perceived value, Service quality, Trust

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CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

According to Abdullah, Al, Datindr, & Muhammed (2013), Islamic banking is known as a banking system or banking operation which is based on the shari'ah (Islamic law) which comprise with the principles sharing profit and loss and the payment and collection of interest also are prohibited because it do not allowed under shari'ah. Other than that, Islamic economics also guided Islamic banking. Islamic banking used principles like profit sharing between the investor (the capital provider) and entrepreneur (user of funds) to ensure there are equal contributions between parties involved especially in case of profitability and loss occurred.

The first Islamic bank was Bank Islam Malaysia Berhad (BIMB) on 1983 and this followed by another Islamic bank which was Bank Muamalat on 1999, as well as other Islamic financial institutions. However, there are many issues have been arise in current practice of Islamic banks whereby the Islamic banking complies or not complies with shari'ah which can make Islamic banking cannot growth in Islamic banking development (Echchabi & Abd Aziz, 2014). Thus, it also threatens Islamic banking with the conventional banking system which much better than Islamic banking system.

Nowadays, the development of Islamic banking in Malaysia has growth faster even though there are dual-banking system between conventional bank system and Islamic banking system. Therefore, the product of Islamic banking system was competed with conventional banking system product. In fact, all banks in Malaysia offered Islamic banking products have their Syariah Advisory Board because it is to ensure the products and services offered by Islamic banking is comply with Shari'ah (Kamarulzaman & Madun, 2013). Currently, there are 16 full-fledged Islamic banks operating in Malaysia (Bank Negara Malaysia, 2015).