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Case Study: Customer Satisfaction in Islamic Financial Services in Malaysian Banks

Siti Syuhada Binti Ab Rahim¹, Omaina Eltahir Babikir Mohamed²

Abstract

This study provides insights into the customer satisfaction and loyalty towards Islamic financial services of the Malaysian customers. Its objective is to examine the relationship between consumers' attitude towards Islamic banking services and intention to adopt Islamic banking services. Data was collected through a survey and was analyzed using SPSS software. The study presents primary data collected by self-administered questionnaires involving a sample of 352 respondents in Malaysia. Data were analyzed using frequencies, reliability analysis, regression analysis and correlation testing. The level of customer satisfaction and loyalty towards Islamic financial services are analyzed using sample characteristics and reliability analysis. To examine the relationship between service quality and customer satisfaction, correlation testing & regression analysis tests. It was found that the five SERVQUAL offered by the bank influencing tangibility, reliability, responsiveness, assurance and empathy. The research findings suggest the need to increase quality services, embrace good customer services and Shariah knowledge as well to enhance reputation and secure customers allegiance.

Keywords: Customer satisfaction, Servqual, Islamic banking, Malaysia.

1. Introduction

Islamic banking is a popular topic in Muslim countries. In Malaysia, the first Islamic bank, Bank Islam Malaysia Berhad (BIMB) was introduced on 1 July, 1983. Malaysia is among the Muslim countries that are fully committed to developing not only Islamic banking but also complete Islamic financial services. BIMB was provided with a duration years to operate solely allowing other Islamic bank to provide Malaysians, particularly Muslims Shariah compliant product and services. The concept of "Islamic window" was introduced in March 1993 when the Central Bank of Malaysia introduced the Interest Free Banking Scheme (later known as Islamic Banking Scheme (IBS)).

According to Asian Banker (2005), Islamic banking has been estimated with \$300 million in assets with a 15 percent increase yearly in more than 100 countries. In Malaysia, Muslims comprise 60 percent employing transactions with both Islamic banks and conventional banks.

Customers in different countries have different perceptions of service quality. Quality services help to increase the sales and generate more profit. To retain customers towards Islamic banks, effective quality service is needed to fulfill customer demands (Wong & Sohal, 2003). Most important aspects which are important for customer satisfaction include levels of convenience and flexibility in terms of financial management tools, products and services.

¹Postgraduate student MBA University Tun Abdul Razak (UNIRAZAK)

²Assistant Professor Universiti Tun Abdul Razak School of Business (UNIRAZAK)

2. Literature Review

Islamic banking is extremely crucial in the Islamic world generally and Malaysia specifically. The emergence of Islamic banking is imperative to all Muslims to generate the growth of economics, promote profit loss sharing, quest for justice, sanctify contract and being ethical (Mansor,2008). Islamic banking offers many products and services to be in tandem with conventional banking. Islamic banks have recognized the importance of service quality to retain its existing customers and to attract new customers in this competitive environment (Wang et al., 2003). Citi bank Hong Kong and Shanghai Banking Corporation (HSBC) are examples of banking giants which have included Islamic financial services to attract potential customers.

In theory, Islamic finance differs significantly from conventional finance. Specifically, Shariah compliant finance does not allow for the charging of interest payments (riba), as only goods and services are allowed to carry a price. Neither it allow for speculation and prohibits financing of specific illicit activities (Beck,T., 2012).

According to Mirakhor (2007), Islamic banking system should conform to *ShariahIslamiyyah*. Then, a more concise meaning of an Islamic bank is followed being a banking business with theories behind its products. For example, deposit taking products can be used as the terminology for products to be used in Islamic banking as well as using the rate of return (hibah) instead of interest rate or interest charges associated with terminologies conventional banks.

While Islamic finance has experienced phenomenal success in the last two to three decades, it still has a long way to go to achieve its objective of maximum risk sharing. It is suggested that financial, legal, and institutional developments and the greater pace of the basic modes of transactions permitted, would accelerate the progress of Islamic finance (Aziz, 2006). For Islamic finance to sustain long-term growth, Muslim countries must liberalise their economies, embrace efficient institutions and adopt consistent macroeconomic policies. In a globalising world, the developments of Islamic finance and conventional finance can be expected to reinforce one another (Hosseini, 2010)

Islamic banks in Malaysia perform the same essential function as conventional bank. According to Aziz (2006) Islamic banks system growth profit increased from 11.7 to 12.1 percent of the total deposits of our country. The Islamic financial contracts are onmusharakah (equity) and mudharabah(hybrid) and ijarah(facilities) (Shahid, 2001). Customer's perception towards Islamic banking in Malaysia is an important component in competing with conventional banks. The Islamic banking system in Malaysia consists of 27 banking institutions include nine Islamic banks and 18 conventional banks offering Islamic products and service under the Islamic Banking Scheme (IBS), also well known as Islamic windows (Bank Negara, 2005).

3. Data and Methodology

The population for this study consists of customers residing in two major cities i.e Kuala Lumpur, the capital of Malaysia and Kota Bharu, the capital of the state of Kelantan. Most major economic activities occur in these areas and both these locations have the most branches of both types of banks. Customers in these areas also possess higher education standards and have easy access to all banking channels.

Thus, they are in a better position to evaluate the banking service quality they expect and receive. The sampling units are all the bank customers regardless if they are involved in conventional or Islamic banking transactions.

Based on the general guidelines by prior researchers on the sample size required from a given population (Hair et al., 1992, 1995; McDaniel & Gates, 1993; Nunnally, 1978; Tabachnik&Fidell (1996) and in view of the number of items used in this study (28 statements). 352 responses were received out of 400 survey questionnaires which were distributed in where 271 are Islamic banking customers and 81are conventional customers.

400 questionnaires were distributed in January 2014 but only 352 or 88 percent of questionnaire were collected. The survey questionnaire was self-administered to compile information thoroughly of the different sections. The first section was to gain demographic information. For measuring this information, a Likert scale was used (1-strongly disagree and 5-strongly agree). In total, 25 different items were listed in this section and most of them were derived from previous studies conducted in other countries as from current banking literature with necessary adaptations made for the Malaysian Islamic banking system. The questionnaire was only used the English language and distributed as such, since English is the second language in the country and most Malaysian can speak English.

4. Findings and Discussion

The frequency statistics for the sample is reflected in Table 1. The sample consists of 52 percent males whereas females are of 48 percent respectively. This distribution of gender in the sample is assumed fair. The demographic variable of marital status in the Table shows that the sample consists of 41 percent unmarried whereas married respondents are 59 percent.

This distribution of unmarried and married in the sample is also assumed to be fair although the number of males is slightly greater in number than females. Similarly, the distribution based on the e-banking account shown in the Table1 is also assumed to be fair with people have e-banking being the largest group with 56 percent. While people who not have e-banking made up 48 percent. The respondents who transacted with Islamic banks made up 77 percent while respondents who carried out transactions with conventional banks made up 23 percent.

Table 1: Frequency Statistics for the Demographic Variables

Demographics		Frequency	Percent
Gender	Male	183	51.99
	Female	169	48.01
Age Group	Below 20	27	7.67
	21-30	150	42.61
	31- 40	90	25.57
Age Group	41-50	55	15.63
	Above 50	30	8.52
Marital Status	Single	144	40.91
	Married	208	59.09
Highest Educational Level	Primary / Secondary School	122	34.66
	Diploma / Matriculation	79	22.44
	Bachelor's Degree	124	35.23
	Professional Qualification	6	1.7
	Postgraduate (Master's or PhD)	21	5.97
Ethnicity	Malay	297	84.38
	Chinese	24	6.82
	Indian	29	0.57
	Others	2	55.68
Do you have E-banking account	Yes	196	55.68
	No	156	44.32
Monthly Income	Less than RM 1,000	83	23.58
	RM 1,000 – RM 3,000	176	50
	RM 3,001 – RM 5,000	46	13.07

Monthly Income	RM 5,001- RM 10,000	34	9.66
	RM 10,001 – RM 20,000	9	2.56
	More than RM 20,000	4	1.14
Employment Status	Employment	258	73.3
	Unemployment	19	5.4
	Student	71	20.17
	Retiree	4	1.14
Type of bank you often deal with	Islamic banks	271	76.99
Frequency of using bank transaction	Daily	45	12.78
	Weekly	117	50.28
	Once in 2 weeks	56	15.91
	Once in 3 weeks	21	5.97
	Once in a month	44	12.5
	Once in 2 months	9	2.56
Religion	Muslim	301	85.51
	Buddhist	13	3.69
	Hindu	22	6.25
	Christian	9	2.56
	Others	7	1.99

The inter-correlations show that both reliability ($\alpha= 0.854$) and responsiveness ($\alpha=0.853$) have significant positive relations with tangibility ($\alpha= 0.865$), assurance ($\alpha=0.862$) empathy ($\alpha= 0.881$) and customer satisfaction ($\alpha=0.874$), respectively, $p < .01$).

Table 2 reveals the correlation coefficients between a mean and standard deviation dependent and independent variables. The correlation for Tangible (M= 3.7284, SD = 0.66246), Reliability (M=3.6364, SD=0.70103), Responsiveness (M= 3.5807, SD =0.69665), Assurance (M=3.6466, SD=0.68128), Empathy (M=3.6369, SD=0.67220) and customer satisfaction (M=3.5805, SD=0.73347). The highest mean is Tangible (0.37284) and the lowest mean is customer satisfaction (3.5805).

The highest Standard deviation is customer satisfaction (0.73347) and the lowest is tangible (0.66246). Given that all the relationships showed positive with significance level below 0.05. Therefore, H₁, H₂, H₃, H₄ and H₅ are confirmed. While both consideration and initiating structure service quality and customer satisfaction, the values does not necessarily suggest strong relationships since all the coefficients of the relationships (Saunders, Lewis & Thorn hill, 2007). And while the correlation coefficients of the overall relationships between service quality and customer satisfaction ($\alpha= 0.874p<.01$).

Table 2: Correlation Matrix

Correlation Matrix	M	SD	α	1.	2.	3.	4.	5.	6.
Tangible	3.7284	.66246	.865	.1	.626**	.544**	.500**	.589**	.450**
Reliability	3.6364	.70103	.854	.626	1	.679**	.550**	.553**	.542**
Responsiveness	3.5807	.69665	.853	.544	.679**	1	.615**	.570**	.572**
Assurance	3.6466	.68128	.862	.500	.550**	.615**	1	.575**	.565**
Empathy	3.6369	.67220	.881	.589**	.553**	.570**	.575**	1	.528**
Customer Satisfaction	.35805	.73347	.874	.450**	.542**	.572**	.565**	.528**	1

Note: ** $p < .01$; α = Cronbach's Alpha.

Likert Scale 1 = Strongly Disagree, 2= Disagree, 3= Neutral, 4 =Agree, 5 = Strongly Agree.

A correlation analysis of all the independent variables (Parasuraman et al, 1988) and the dependent variables revealed a coefficient of 0.720, indicating a relatively strong positive relationship between the dependent and independent variables. The most significant correlation was between customer satisfaction and five dimensions, resulting in a score of 0.8. Tangible had the second most significant correlation with customer satisfaction at 0.865. This hypothesis was supported by data analysis.

Hypotheses Testing

The total variance explained in the model stands at 44.1 %

H1: Tangible relates positively with customer satisfaction

The analysis shows that Tangible is positively related to customer satisfaction, where $\beta = .012$, $t = .212$, $p = .833$. However, the relationship is not statistical significant. Thus, H1 is not supported by the data.

H2: Reliability relates positively with customer satisfaction

The analysis shows that Reliability is positively related to customer satisfaction, where $\beta = .167$, $t = .274$, $p = .006$. The relationship is statistical significant.

H3: Responsiveness relates positively with customer satisfaction

The analysis shows that Responsiveness is positively related to customer satisfaction, where $\beta = .204$, $t = .335$, $p = .001$. The relationship is statistical significant.

H4: Assurance relates positively with customer satisfaction

The analysis shows that Assurance is positively related to customer satisfaction, where $\beta = .242$, $t = .439$, $p = .000$. The relationship is statistical significant.

H5: Empathy relates positively with customer satisfaction

The analysis shows that Empathy is positively related to customer satisfaction, where $\beta = .173$, $t = .309$, $p = .002$. The relationship is statistical significant.

5. Conclusion

This study attempted to analyse the level of customer satisfaction and loyalty towards Islamic financial services, to examine the relationship between consumers' attitude towards Islamic banking services and intention to adopt Islamic banking services as well as to examine the relationship between service quality and customer satisfaction of Islamic financial services. The researcher hopes it has made a valued contribution to the understanding of the pathways existing between the variables examined. The findings confirm significant positive relations between service quality and customer satisfaction.

Customer awareness of key Islamic bank products and services, their usage of these services and their satisfaction with the delivery systems utilised in extending them were also investigated. The results of the study show that the majority of Islamic bank customers are well educated, with approximately 40 percent holding high school certificates, and about 50 per cent holding a bachelor degree or above. The results also show that about 80 per cent of Islamic bank customers fall in the age group between 25-50 years.

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Appendix A: Participants Survey

A Survey on “Customer Satisfaction in Islamic Financial Services”

SECTION A: Demographic

Dear Respondent,

The purpose of this study is to determine the influence of service quality on customer satisfaction among bank customers in the Malaysian Islamic banks.

It takes 5-10 minutes of your time to fill in this survey questionnaire. Thank You for your cooperation.

Instructions

The success of this study depends on your responses to the following questions. I hope you will give honest answers to ensure that the information provided truly reflect the reality.

1. Gender

- Male
- Female

2. Age Group

- below 20
- 21 – 30
- 31-40
- 41-50
- Above 50

3. Marital Status

- Single
- Married

4. Highest Educational Level

- Primary /Secondary School
- Diploma /Matriculation
- Bachelor's Degree
- Professional Qualification
- Postgraduate (Master's or PhD)

5. Ethnicity

- Malay
- Chinese
- Indian
- Others

Please specify: _____

6. Do you have an E-banking account?

- Yes
- No

7. Monthly Income

- Less than RM 1,000
- RM 1,000 -RM 3,000
- RM 3,001 - RM 5,000
- RM 5,001 - RM 10,000
- RM 10,001- RM 20,000
- More than RM 20,000

8. Employment Status

- Employed
- Unemployed
- Student
- Retiree

9. Type of bank you often deal with

- Islamic banks
- Conventional banks

10. Frequency of using bank transaction

- Daily
- Weekly
- Once in 2 weeks
- Once in 3 weeks
- Once in a month
- Once in 2 months

11. Religion

- Muslim
- Buddhist
- Hindu
- Christian
- Others

Please specify: _____

Section B: Service Quality

The following statements are concerned with perceived service quality of Islamic Financial Services provided by the bank. Please rate your views using a five-point Likert scale ranging from “1” = strongly disagree (SD) to “5” = strongly agree (SA).

Tangibility / Physical aspects

No.	Statement	SD →SA				
		1	2	3	4	5
1	Physical layout of equipment and furniture are comfortable for customer interacting with staff.	1	2	3	4	5
2	The bank has convenient opening business hours.	1	2	3	4	5
3	The bank staff appearance is neat.	1	2	3	4	5
4	The bank’s physical facilities are visually appealing.	1	2	3	4	5
5	The bank uses modern looking equipment. (e.g., Check Processing, Currency Discriminators and Check Imaging Systems).	1	2	3	4	5

Reliability

No.	Statement	SD →SA				
		1	2	3	4	5
1	The bank keeps its customer records accurately.	1	2	3	4	5
2	The bank staff provide services at the time they promise to do so.	1	2	3	4	5
3	The bank performs the services right the first time.	1	2	3	4	5
4	The bank insists on error free records.	1	2	3	4	5
5	When you have a problem, the bank shows a sincere interest in solving it.	1	2	3	4	5

Responsiveness

No.	Statement	SD →SA				
		1	2	3	4	5
1	The bank staff are always willing to help customers.	1	2	3	4	5
2	The bank staff give you prompt service.	1	2	3	4	5
3	The bank provides fast and efficient counter services.	1	2	3	4	5
4	The bank provides more branches.	1	2	3	4	5
5	The bank staff are never too busy to respond to your requests.	1	2	3	4	5

Assurance

No.	Statement	SD →SA				
1	The bank staff are polite and friendly.	1	2	3	4	5
2	The bank staff have necessary knowledge and give precise answers to my inquiries.	1	2	3	4	5
3	I feel safe when I conduct any transactions with the bank.	1	2	3	4	5
4	The bank staff behavior creates confidence in customers.	1	2	3	4	5
5	The bank provides financial advice to customers.	1	2	3	4	5

Empathy

No.	Statement	SD →SA				
1	The bank provides internet banking facility.	1	2	3	4	5
2	The ATM machines of the bank is easily accessible.	1	2	3	4	5
3	The bank provides credit on favorable terms.	1	2	3	4	5
4	The bank staff give you individual attention.	1	2	3	4	5
5	The bank provides lower service charges.	1	2	3	4	5

Section C: Customer Satisfaction

The following statements are concerned with the customer satisfaction of Islamic Financial Services provided by the bank. Please rate your views using a five-point Likert scale ranging from “1” = very dissatisfied(VD) to “5” = very satisfied (VS).

No.	Statement	VD →VS				
1	Overall, how satisfied are you with the Islamic bank?	1	2	3	4	5
2	How satisfied are you with the services provided by the bank?	1	2	3	4	5
3	How satisfied are you with the price of the product provided by the bank?	1	2	3	4	5

SECTION D: Comment or Additional Information

Please use the space below for any comments or additional information about the Islamic financial services of the bank.

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Please attach your business card or provide your e-mail address if you wish to receive the results of the research.

- First Name:
- Last Name:
- Email:
- Company Name:
- Business card:

“Thank you for your participation”.