

**MEASURING FACTORS AFFECTING CUSTOMER  
LOYALTY ON ISLAMIC BANKING DEPOSIT IN MALAYSIA**

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**MASTER IN ISLAMIC FINANCE AND BANKING**

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## ABSTRACT

The growth of Islamic banking assets in Malaysia shows a remarkable growth for the recent years. The total assets of Islamic banking have risen RM 469.5 billion with an average 24.2% growth per year. In spite of this phenomenal growth, Islamic banking only gain 20% of banking industry market share. In order to increase its market share, the Islamic banks must satisfy their customers. The purpose of the study is to determine factors that affecting customer loyalty on Islamic banking deposit. This study was conducted primary data collected through a questionnaire and email survey from Bank Islam customers in Universiti Utara Malaysia (UUM). The study was carried out by taking a sample of 217 respondents only 118 responses were further analysed by using SPSS software. The result revealed that customer satisfaction, perceived value, and trust have significant influence on customer loyalty on Islamic banking deposit. This study empirically contributes to the practical implication of Islamic banking managers in order to understand customer's anticipations. Managers of Islamic banks have to place prime the importance of customers by building these factors to enhance their customer's loyalty. Moreover, the study presented valuable information about the expansion and development of Islamic banks, as well as the market behaviour of Islamic banking customers in Malaysia. In order to increase Islamic banking market share in this modern customer-centric competitive arena, the bank has to satisfy and show value to their customers. Nevertheless, Islamic banking managers can formulate the strategies to retain their customers and attract new customers.

**Keywords:** Islamic banking, deposit, customer loyalty, customer satisfaction, service quality, perceived value and trust.

## ABSTRAK

Pertumbuhan aset perbankan Islam di Malaysia menunjukkan pertumbuhan yang luar biasa untuk tahun-tahun kebelakangan ini. Jumlah aset perbankan Islam telah meningkat RM 469.5 bilion dengan pertumbuhan purata 24.2% setahun. Walaupun pertumbuhan ini luar biasa, perbankan Islam hanya menguasai 20% daripada bahagian perbankan industri pasaran. Dalam usaha untuk meningkatkan bahagian pasarnya bank-bank Islam hendaklah memenuhi pelanggan mereka. Kajian tujuan adalah untuk menentukan faktor-faktor yang mempengaruhi kesetiaan pelanggan atas deposit perbankan Islam. Kajian ini dijalankan data primer yang dikumpul melalui soal selidik dan kajian e-mel daripada pelanggan Bank Islam di Universiti Utara Malaysia (UUM). Kajian ini telah dijalankan dengan menentukan sampel sebanyak 217 responden pada awalnya. Namun, hanya 118 respondent sahaja yang sah digunakan untuk analisis dengan menggunakan perisian SPSS. Hasilnya menunjukkan bahawa kepuasan pelanggan, nilai dilihat, dan kepercayaan mempunyai pengaruh yang besar ke atas kesetiaan pelanggan atas deposit perbankan Islam. Walaubagaimanapun, kajian empirikal ini menyumbang kepada implikasi secara praktikal terhadap para pengurus perbankan Islam dalam memahami permintaan dan jangkaan para pelanggan untuk terus menjalankan transaksi deposit di institusi perbankan Islam di Malaysia. Pihak pengurusan perbankan Islam perlu mengutamakan kepentingan para pelanggan dengan menitikberatkan faktor-faktor berkenaan bagi mengukuhkan kesetiaan mereka kepada institusi perbankan Islam. Kajian ini juga telah memberi sumbangan pengetahuan khususnya dalam bidang perbankan Islam. Tambahan pula, kajian ini juga memberikan maklumat yang penting dalam pembangunan institusi perbankan Islam yang berterusan serta memberi kefahaman terhadap tingkah laku pasaran pelanggan perbankan Islam di Malaysia. Dalam usaha meningkatkan pasaran perbankan Islam yang kompetitif secara menyeluruh, pihak perbankan Islam disarankan untuk memenuhi kepuasan pelanggan serta menunjukkan nilai-nilai yang murni dan meningkatkan kepercayaan para pelanggan terhadap sistem perbankan Islam yang telus. Pihak perbankan Islam juga boleh merangka strategi untuk mengekalkan kesetiaan para pelanggan yang sedia ada dan juga menarik pelanggan yang baru bagi menjalankan transaksi sistem perbankan Islam.

**Kata Kunci:** Perbankan Islam, deposit, kesetiaan pelanggan, kepuasan pelanggan, kualiti perkhidmatan, nilai tanggapan dan kepercayaan.

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## LIST OF ABBREVIATIONS

BIMB	Bank Islam Malaysia Berhad
BNM	Bank Negara Malaysia
B	Beta
COB	College of Business
MER	Malaysian Economic Report
IBA	Islamic banking act
H	Hypothesis
KFHR	Kuwait Finance House Report
SPSS	Statistical Package for the Social Science
UUM	Universiti Utara Malaysia
WIBCR	World Islamic Banking Conference Report

## **CHAPTER ONE**

### **BACKGROUND OF THE STUDY**

#### **1.1 Introduction**

This study is designed to measure the factors affecting customer loyalty on Islamic banking deposit. This chapter contains background of the study, current of Islamic banking system, history of Islamic banking and overview of deposit. It also discusses the problem statement, research questions, research objectives, significance, scope and limitation of the study, and organization of the thesis.

#### **1.2 Background of the Study**

The last four decades have seen the establishment of Islamic banking as a sustainable banking system (khan, 2010). (Hassan, Ahmed, Ahmed, Habib, Riaz, Maqbool, & Anwar 2011), since 1971, Islamic banks have continued to grow in size and in number. Furthermore, the main mission of these Islamic banks has been the achievement of social and economic development through the delivery of financial services in line with the principles and teachings of Islam (Hassan et al, 2011). Similarly, WIBCR, (2013) reposted the statistics of total growth of Islamic banks and estimated 363 which is combination of 249 standalone Islamic banks and 114 Islamic banking windows.

The contents of  
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