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**FACTORS AFFECTING CUSTOMER LOYALTY IN ISLAMIC BANKING
SECTOR OF HARGEISA, SOMALIA**

By

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**Research Paper Submitted to
College of Business, Universiti Utara Malaysia
In Partial Fulfillment of the Requirement for the
Master in Islamic Finance and Banking**



Pusat Pengajian Perniagaan Islam
ISLAMIC BUSINESS SCHOOL
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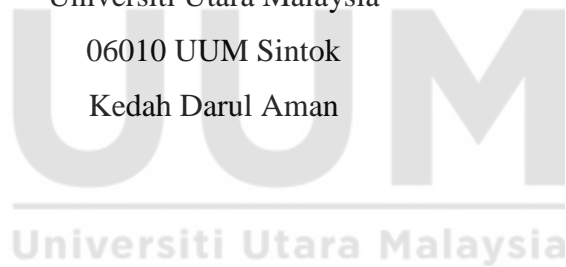
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ABSTRACT

According to Central Bank of Somaliland report, the number of Islamic commercial bank offices reduced from 203 offices in 2018 to 182 offices in 2019. This phenomenon is due to lack of customer's confident towards services provided by Islamic banks. Therefore, the purpose of this study is to determine the factors affecting customer loyalty in Islamic banking sector in Hargeisa, Somalia. There are two Islamic banks operating in Hargeisa City namely Salam Bank and Premier Bank. Four factors have been identified affecting the customer loyalty that is customer expectation, customer trust, service encounter and service experience. Primary data was utilized to conduct this study. The study was carried out survey which involved 250 respondents for both Islamic banks. The SPSS software was utilized in this study for both descriptive and inferential statistics. Based on the multiple regression analysis, the study found that service experience, service encounter and customer trust are the most affecting variables in customer loyalty in Islamic banks of Hargeisa City. Thus, the present study provides additional empirical evidence to improve the body of knowledge especially in Islamic banking system in Somalia.

Keyword: Islamic Bank, Customer loyalty, Service experience, Multiple regression, Somalia



ABSTRAK

Berdasarkan laporan daripada Bank Pusat Somaliland, berlakunya pengurangan pejabat bank Islam daripada 203 pejabat pada tahun 2018 kepada 182 pejabat pada tahun 2019. Fenomena ini berlaku disebabkan oleh kurang keyakinan pelanggan terhadap perkhidmatan yang ditawarkan oleh bank – bank Islam. Oleh itu, tujuan utama kajian ini adalah untuk mengenalpasti faktor-faktor yang mempengaruhi kesetiaan pelanggan di sektor perbankan Islam yang terdapat di Hargeisa, Somalia. Terdapat 2 buah bank Islam beroperasi di bandar Hargeisa iaitu Salam Bank dan Premier Bank. Empat faktor telah dikenalpasti mempengaruhi kesetiaan pelanggan iaitu harapan pelanggan, kepercayaan pelanggan, layanan perkhidmatan dan pengalaman perkhidmatan. Kajian ini telah menggunakan sumber daripada data primer. Kajian ini telah menggunakan kaedah tinjauan dengan melibatkan seramai 250 responden bagi kedua-dua bank Islam. Perisian SPSS digunakan bagi statistik deskriptif dan inferensi. Berdasarkan analisis regresi berganda, dapatan kajian mendapati bahawa pengalaman perkhidmatan, layanan perkhidmatan dan kepercayaan pelanggan merupakan pembolehubah yang paling mempengaruhi kesetiaan pelanggan di bank Islam Bandar Hargeisa. Oleh itu, kajian ini menunjukkan bukti empirikal tambahan untuk meningkatkan ilmu pengetahuan terutamanya dalam sistem perbankan Islam di Somalia.

Kata Kunci: Bank Islam, Kesetiaan Pelanggan, Pengalaman Perkhidmatan, Regresi Berganda, Somalia



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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Islamic banking is inseparably identified with the prerequisite for an Islamic monetary framework equipped for addressing the necessities of Muslim customers. Conventional banking is altogether occupied with (riba) exchanges, which are precluded by Islamic law. Muslims look for elective banking (Ahmd & Rhman, 2010). Islamic money is a practical option in contrast to customary money for disseminating abundance in a fair and long haul way. It has profound roots in a supportable society that needs prosperity, uniformity, and equity. Since social obligation is so fundamental in financing, the Islamic money framework doesn't dismiss the social repercussions of corporate activities. Islamic monetary techniques, then again, are not simply materialistic, yet depend on characterized standards cultural duties and commitments (Lajuni, 2017).

Islamic banking is a monetary idea that joins imaginative and ground breaking monetary designing with Islamic Shari'ah Law to give productive and serious banking, speculation, exchange money, business, and land financing administrations (Abdqawi & Lynn, 2013). Islamic banking is acquiring pace, as indicated by the scholars, and enormous worldwide customary banks are displaying revenue in the Islamic monetary framework. Islamic bank then again, are up against stiff competition from Islamic banks (Naser & Moutinho, 2012). This highlights the question of client loyalty as the only way to ensure their competitiveness and long-term survival (Ahasanul Haque, 2009). As a result, determining

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Pusat Pengajian Perniagaan Islam
ISLAMIC BUSINESS SCHOOL
كلية إدارة الأعمال الإسلامية
Universiti Utara Malaysia

**FACTORS AFFECTING CUSTOMER LOYALTY IN ISLAMIC BANKING
SECTOR OF HARGEISA, SOMALIA**

Dear respondents

I am postgraduate student of Master in Islamic finance and banking (MIFB) from University Utara Malaysia. I am doing my final research project about factors affecting customer loyalty in Islamic banking sector of Hargeisa, Somalia and I hope that you could make me a favor by helping me to fill up my questionnaire.

This questionnaire consists of four sections. There are *Section A* which referring to the respondents' demographic profiles and *Section B* is focus on the factors effects customer loyalty of Islamic sector in Hargeisa Somalia. *Section C* referring to customer loyalty towards Islamic banking services. *Section D* is referring to respondent recommendation/opinion towards Islamic banking product and services.

All information provided by you will be treated as **PRIVATE AND CONFIDENTIAL** and used merely for academic purposes.

Thanks you very much for your kind cooperation.

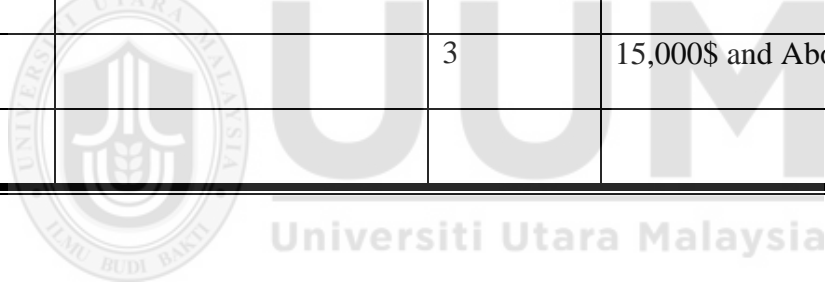
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Section A: RESPONDENT'S BACHGROUND

Please respond to the following questions by circling the best fitting number. There is no right or wrong answers for these questionnaires. All the information collected through the questionnaire will be used only for contribution to knowledge and kept secretly and confidentially. Please ensure that you mark (✓) all the given statements, as incomplete respond will not fulfill researcher's requirements.

1.	Gender	1.	Male	
		2.	Female	
2.		1	25-30 years	
		2	31-35 years	
	Age	3	36-40 years	
		4	41-50	
		5	Above 50	
3.		1	Single	
	Marital Status	2	Married	
4.		1	Degree	
	Educational Qualification	2	Master degree	
		3	PHD	
5.		1	Less than 1 year	
		2	1 – 4 years	
	Occupation:	3	5 – 10 years	

		4	Above 10 years	
6.		1	Less than 1 year	
	Length of customer relationship with the bank	2	1 – 4 years	
		3	5 – 10 years	
		4	Above 10 years	
7		1	Less than 5,000\$	
	Monthly income	2	5,000 – 15,000\$	
		3	15,000\$ and Above	



Section B

Please indicate your degree of strength agreement/disagreement on the following statement and please circle the numbers that you think are appropriate

Strongly Disagree 1 2 3 4 5 **Strongly Agree**

NO	Service encounter	Scale				
		1	2	3	4	5
1	The Islamic bank performs the service right at the first time.					

2	The Islamic bank tells me exactly when services will be performed.	1	2	3	4	5
3	Customer service staffs are always courteous with customers	1	2	3	4	5
4	Customer service staffs have adequate support from the service provider to do their job well.	1	2	3	4	5

NO	Services experience	Scale				
1	Customer service staffs have knowledge to answer customer.	1	2	3	4	5
2	The Islamic bank gave customer individual attention.	1	2	3	4	5
3	The Islamic bank has customers' best interest at heart.	1	2	3	4	5
4	Customer service staffs understand customer specific needs.	1	2	3	4	5

NO	Customer Trust	Scale				
1	I trust my current Islamic bank that I use.	1	2	3	4	5
2	I feel that I can rely on my current Islamic bank services to serve me well.	1	2	3	4	5
3	I trust the billing system used by my current Islamic bank.	1	2	3	4	5
4	I believe that I can trust my current Islamic bank because the company will	1	2	3	4	5

NO	Customer expectation	Scale				
		1	2	3	4	5
1	My Islamic bank meets my pre-usage expectations.	1	2	3	4	5
2	My Islamic bank completely meets my expectations.	1	2	3	4	5
3	I expect that I can rely on Islamic banking services to get good service	1	2	3	4	5
4	I expect that Islamic bank performs better service for offering conventional banking services	1	2	3	4	5

Section C: The factors affecting customer loyalty in Islamic Banking sector at Hargeisa, Somalia. Please indicate your degree of strength agreement/disagreement on the following statement and please circle the numbers that you think are appropriate.

Strongly Disagree 1 2 3 4 5 **Strongly Agree**

NO	Customer loyalty	Scale				
		1	2	3	4	5
1	I often tell positive things about my bank to other people.	1	2	3	4	5
2	I shall continue to do more business with my Islamic bank.	1	2	3	4	5
3	I will never switch from my Islamic bank if they continue high service quality and secure deposit accounts.	1	2	3	4	5

4	I recommend my Islamic bank to someone who seeks financial advice.	1	2	3	4	5
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Section D:

Recommendation and opinion towards Islamic banking product and services

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**THANK YOU VERY MUCH FOR YOUR VALUABLE TIME, COOPERATION
& INFORMATION.**