

Customer Loyalty in Islamic Bank during the COVID-19 Outbreak: The Mediating Role of Trust and Satisfaction

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ABSTRACT

Amidst the pandemic, Indonesia witnessed an economic downturn characterized by widespread layoffs, leading to an escalation in the unemployment rate and a decline in individual purchasing power. This crisis also bore down on the market share of Islamic banks. According to the 2021 survey conducted by the Islamic Financial Services Board (IFSB), the primary hurdles faced by Islamic banks during the pandemic were rooted in legacy infrastructure and technology. Loyalty, trust, and customer satisfaction are intricately linked to the quality of services provided, beginning with the customer's comprehension of Islamic banking. This study delves into the impact of knowledge on customer loyalty, with satisfaction and trust acting as mediating factors among Islamic bank customers in the context of the COVID-19 outbreak. Employing a quantitative approach, the study gathered data from 105 respondents based on the Isaac-Michael formula endorsed by the Islamic Economist Association in Yogyakarta in 2021, administered through questionnaires. The data was then analyzed using Structural Equation Modeling. The findings of this study underscore that knowledge significantly influences customer satisfaction, trust, and ultimately, loyalty. Additionally, satisfaction demonstrates a notable positive effect on loyalty. However, trust, in isolation, does not exert a direct influence on loyalty. Moreover, it was observed that knowledge directly impacts loyalty, and this effect is mediated by satisfaction, while trust does not serve as a mediator between knowledge and loyalty. In light of these findings, this study advocates for initiatives within Islamic banks to enhance financial literacy, provide accurate information, and foster understanding, countering any negative narratives that may erode public trust and perceptions. Furthermore, there is a pressing need to bolster digital services to ensure the continued loyalty of Islamic bank customers.

ABSTRAK

Di tengah pandemi, Indonesia mengalami kemerosotan ekonomi yang ditandai dengan maraknya pemutusan hubungan kerja (PHK), yang menyebabkan peningkatan tingkat pengangguran dan penurunan daya beli masyarakat. Krisis ini juga menekan pangsa pasar bank syariah. Menurut survei tahun 2021 yang dilakukan oleh Islamic Financial Services Board (IFSB), rintangan utama yang dihadapi oleh bank-bank syariah selama pandemi berakar pada infrastruktur dan teknologi lama. Loyalitas, kepercayaan, dan kepuasan pelanggan terkait erat dengan kualitas layanan yang diberikan, dimulai dari pemahaman pelanggan tentang perbankan syariah. Penelitian ini mempelajari dampak pengetahuan terhadap loyalitas nasabah, dengan kepuasan dan kepercayaan sebagai faktor mediasi di antara nasabah Bank Syariah dalam konteks wabah COVID-19. Dengan menggunakan pendekatan kuantitatif, penelitian ini mengumpulkan data dari 105 responden berdasarkan formula Isaac-Michael yang disahkan oleh Ikatan Ahli Ekonomi Islam di Yogyakarta pada tahun 2021, yang diberikan melalui kuesioner. Data tersebut kemudian dianalisis dengan menggunakan Structural Equation Modeling. Temuan penelitian ini menggarisbawahi bahwa pengetahuan secara signifikan memengaruhi kepuasan, kepercayaan, dan pada akhirnya, loyalitas pelanggan. Selain itu, kepuasan menunjukkan efek positif yang signifikan terhadap loyalitas. Namun, kepercayaan, secara terpisah, tidak memberikan pengaruh langsung terhadap loyalitas. Selain itu, diamati bahwa pengetahuan secara langsung berdampak pada loyalitas, dan efek ini dimediasi oleh kepuasan, sementara kepercayaan tidak berfungsi sebagai mediator antara pengetahuan dan loyalitas. Berdasarkan temuan-temuan ini, penelitian ini mengadvokasi inisiatif dalam bank Syariah untuk meningkatkan literasi keuangan, memberikan informasi yang akurat, dan menumbuhkan pemahaman, melawan narasi negatif yang dapat mengikis kepercayaan dan persepsi publik. Selain itu, ada kebutuhan mendesak untuk meningkatkan layanan digital untuk memastikan loyalitas nasabah bank Syariah yang berkelanjutan.

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1. INTRODUCTION

The COVID-19 pandemic has had a direct impact on activities in the real sector, consequently affecting the operational performance of Islamic banks, which rely on the real sector. Additionally, there is an elevated risk of liquidity in Islamic banks that are perceived to be of lower quality. This raises the possibility of funds being shifted from lower-quality banks to higher-quality ones during this pandemic period. Consequently, there has been a decrease in the quality of financial assets, encompassing both financing and securities. This leads to a reduction in profitability due to increased provisioning and fund costs (Elnahass et al., 2021). A major challenge faced by Islamic banking during the pandemic has been the acceleration of digital services (Hassan et al., 2020). Digital banking Services offer customers the ability to obtain information, communicate, and conduct banking transactions through electronic media, allowing for quicker and more efficient service that can be independently navigated by the customer, with a keen eye on security.

A survey conducted by the Islamic Financial Services Board (IFSB, 2021) revealed that 77% of Islamic banking entities indicated that their banking systems' digital transformation process was in progress, with only 3% planning to initiate digitalization. A significant hurdle faced in this period is the need for upgraded infrastructure and technology, with 57% of Islamic banks identifying a requirement for additional human resources to facilitate digital transformation. Customers exhibit a high degree of loyalty and trust if Islamic banks uphold their reputation and performance during a pandemic. It is imperative for Islamic banks to evaluate the impact of COVID-19 on the real sector, economic growth, customer behavior, and other factors influencing the bank's overall health. Banks must then formulate various scenarios to assess the economic repercussions of COVID-19 and its multiplier effect on Islamic bank performance (Abdulla, 2021).

In recent years, the number of Islamic bank branches has experienced a slight increase, thanks to bank digitalization, enabling customers to conduct transactions without visiting physical branch offices. Moreover, third-party funds in Islamic Banks have witnessed a 12% increase over the past two years. The growth of Islamic finance is on a rapid trajectory. As of 2022, the assets of Islamic institutions have reached IDR 428 trillion. This marks a 32.6% surge from the figures in 2018. Such robust performance indicates a positive shift in the image of Islamic banks year by year, resulting in heightened customer satisfaction and loyalty. Table 1 highlights a comparative table illustrating the progress of both conventional and Islamic banks.

The conventional bank continues to hold a dominant position in the national financial industry. As indicated in Table 1, the total assets of Islamic banks still fall within the range of 6% to 7% of those held by conventional banks. This presents a challenge for advocates of Sharia economics and stakeholders of Islamic banks who aspire to enhance product diversification and foster a more positive perception of Islamic banking. In recent times, Islamic banks have experienced a decline in their market share, and their growth has lagged behind that of conventional banks. To effectively compete and thrive alongside conventional banks, Islamic banks must innovate their product offerings. In order to make significant progress, Islamic banks should possess a diverse range of innovative products, which are increasingly becoming essential (Syafri & Aminah, 2015).

There are several impediments hindering the progress of Islamic banks. Notably, the urgent need for asset securitization is not pronounced. Instead, Islamic banks can expand their lending activities.

Table 1. The Development of Islamic Bank and Conventional Bank in Indonesia

| Indicator | Islamic Bank | | | Conventional Bank | | |
|---------------------------------------|--------------|-------|-------|-------------------|--------|--------|
| | 2020 | 2021 | 2022 | 2020 | 2021 | 2022 |
| Total of banks | 14 | 14 | 13 | 109 | 107 | 106 |
| Total of offices | 2426 | 2474 | 2445 | 36,426 | 38,236 | 31,411 |
| Total of Asset (Rp trillion) | 593 | 626 | 736 | 9.322 | 10.278 | 11.296 |
| Third-Party Fund (Rp trillion) | 322.3 | 385.4 | 428.3 | 7384.3 | 7481.8 | 8153.6 |

Source: Financial Service Authority, 2023

Toward the end of 2015, the Financial Services Authority (OJK) introduced Regulation No. 20 of 2015, which governed securitization through the issuance of Asset-Backed Securities (EBA). This regulation streamlined the process for banks to acquire fresh funds swiftly and expand their network. Assessing the quality of a bank is a nuanced task due to the diverse standards in play. Generally, the services provided by government-run Islamic bank institutions differ significantly from those offered by certain foreign banks. The professionalism required to deliver high-quality service is closely tied to the caliber of human resources (Chadha & Parimoo, 2017).

The foundation of customer relationships lies in trust and commitment (Chang & Hung, 2018). Trust and satisfaction involve positive expectations linked to the belief in something with an element of risk; trust is the confidence that customers place in a company to treat them well. A positive perception of the knowledge customers possess about Islamic banks can foster premium customer loyalty. This form of loyalty arises when there is a high rate of repeat purchases and sustained interest (Jeon et al., 2021). This kind of loyalty stands as a coveted trait for any company, as it entails continued product usage and the sharing of information with peers and family members, indicating a notable level of preference (Griffin & Herres, 2002).

The mediating role of trust and satisfaction is crucial in establishing brand loyalty, as these two factors serve as barriers to preventing consumers from switching products. Consumers are prone to behavioral biases, and merely possessing knowledge about a product is often insufficient to pique their interest; however, trust and satisfaction serve as catalysts for consumer repurchasing (Islam et al., 2021; Mansouri et al., 2022). Prior research has yielded varying outcomes in discussions surrounding consumer loyalty. The significance of satisfaction and trust as mediating variables in the context of loyalty within Islamic banking is an area of considerable interest. Customer knowledge encompasses all information held by customers about various products and services, as well as other information related to Islamic bank products and services, and information regarding its function from a customer perspective. This study aims to ascertain the role of knowledge in customer loyalty, mediated by the satisfaction and trust of Islamic bank customers during the COVID-19 outbreak.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

The overarching theory underpinning this study is the theory of consumer behavior. It delves into the decision-making processes of individuals, groups, and organizations regarding the selection, purchase, and utilization of goods, services, ideas, or experiences. The focus lies in how these choices align with their needs and desires (Kotler et al., 2020). Understanding consumer behavior and gaining comprehensive insights into customers are vital pursuits for producers. Therefore, companies involved in the production and sale of consumer-oriented items must formulate precise plans. This necessitates a thorough grasp of consumer behavior, enabling the company to effectively meet the needs and desires of consumers, thereby facilitating transactions and fostering customer satisfaction. This, in turn, cultivates consumer loyalty towards the company's products (Özen & Ersoy, 2019).

The subsequent theoretical framework is the S-O-R model, initially introduced by Houland et al. in 1953. This theoretical framework emerged from the influence of psychological principles on the field of communication science. At its core, the S-O-R theory hinges on causality. Changes in behavior are contingent upon the quality of the stimulus interacting with organisms (Song et al., 2022). Implementing societal change requires external entities to provide encouragement, as consumers possess the agency to accept or reject stimuli or messages directed at them. Effective communication occurs when the communicator shows attentiveness, leading to comprehension. Proficiency in communication is pivotal for the continuity of the process. Once understanding and acceptance of information occur, a subsequent inclination towards altering attitudes becomes evident. Chakraborty et al. (2023) proposed a theoretical framework comprising three core components: stimulus (S), which encompasses communication activities and marketing efforts undertaken by the bank, knowledge-based strategies aimed at fostering satisfaction and trust, and the role of mediation. Within the organism (O) context, it likely refers to individuals who are customers of Islamic banks. The response (R) is the resultant effect, with the anticipated outcome being the establishment of client loyalty.

Product knowledge encompasses a comprehensive array of information related to various aspects of products. This encompasses details such as product attributes, categories, brands, nomenclature, attributes, and pricing, among others. Satisfaction is commonly defined as an individual's subjective

experience of contentment or disappointment arising from the assessment of a product's performance or outcome compared to their preconceived expectations. Product trust pertains to the willingness of consumers to place their confidence and feel a sense of security in a brand, despite inherent risks, based on the expectation of favorable and reliable outcomes. Customer loyalty is a strategic approach employed by businesses to retain the patronage of existing consumers, ensuring their ongoing purchase of products or utilization of services. It's imperative to direct business strategies towards acquiring new clients, while also recognizing and retaining existing clientele who have previously engaged with your establishment. Loyal consumers stand as a testament to a company's high level of reliability, consistently making repeat purchases of its offerings. This trust stems from the satisfaction customers experience when using products or engaging in transactions at your establishment. Elevating customer satisfaction is pivotal for the company's survival and growth in the competitive market landscape (Gupta et al., 2023).

Knowledge encompasses all that is understood or known about a subject. It involves a fusion of awareness, comprehension, and the capacity for action embedded in the possessor's mind (Kotler et al., 2020). Consumer knowledge is commonly gauged through an understanding of product attributes, benefits, and customer satisfaction. When consumers are well-informed about a product—including its specifications and benefits—it tends to foster loyalty. Well-informed customers are more likely to be satisfied and make repeat purchases (Blackwell et al., 2006). In line with the preceding theoretical framework, we posit the following hypothesis:

H1: Knowledge significantly influences customer satisfaction.

Dissatisfied consumers are more inclined to seek alternatives and consider competing offers compared to satisfied customers. Customer happiness can be defined and measured in various ways. Numerous studies have focused on how customers respond to their level of contentment within the customer experience. While definitions of customer satisfaction may vary among experts and contexts, a common thread is that customer satisfaction occurs when the product's performance or outcome surpasses expectations, leading to feelings of joy because the product meets the buyer's needs (Anderson & Srinivasan, 2003). Building on the theoretical framework, we propose the following hypothesis:

H2: Customer satisfaction significantly impacts customer loyalty.

The Expectation Disconfirmation Model is the theory that elucidates satisfaction, suggesting that both satisfaction and customer loyalty result from a comparison between expectations and actual experiences. Customer loyalty necessitates a sense of purpose (Buttle, 2009). Proper decision-making, expectation management, and seamless experiences are all indicators of satisfaction variables (Lubis et al., 2020). Banks must consistently cultivate strong customer relations to instill trust in Islamic banks. Trust, defined as a customer's perception of reliability based on experience or the fulfillment of product performance expectations plays a vital role (Cuong & Khoi, 2019). Based on the explanation above, we propose the following hypothesis:

H3: Trust significantly affects customer loyalty.

Trust serves functions such as cooperation, a form of responsibility, and the maintenance of long-term relationships. Benevolence, reliability, competence, honesty, and openness constitute the five dimensions that shape customer trust (Cuong & Khoi, 2019). Loyalty involves the continued use of a product or service. The decision to consistently choose a particular brand or make repeat purchases is an indicator of loyalty. Satisfaction and trust are two determinants of loyalty, measured by factors such as repeat purchases, exclusive patronage, and product referrals (El-Adly, 2019). Customer loyalty is a primary objective of modern marketing. Building on this premise, we propose the following hypotheses:

H4: Knowledge significantly influences customer trust.

H5: Knowledge significantly influences customer loyalty.

Numerous studies demonstrate that commitment and trust substantially impact consumer loyalty to a company's products or services (Kim, Choi, & Hyun, 2020). Functional value has no discernible effect on commitment, but it does impact trust. Hedonic values significantly influence loyalty and trust. Social values significantly influence commitment, but not trust. The value placed on conformity has a tremendous impact on commitment and trust (Lin et al., 2015; Syarif, 2023). Customer satisfaction has a significant positive effect on trust. Furthermore, the findings indicate that customer trust has a significant positive impact on loyalty. A significant positive direct result of customer satisfaction on loyalty supports the existing hypothesis (Filipe et al., 2017). Hamid & Nordin (2001) discovered a high level of awareness about Malaysian Islamic banks. Customers will become more aware of Islamic bank products, they believe, as a

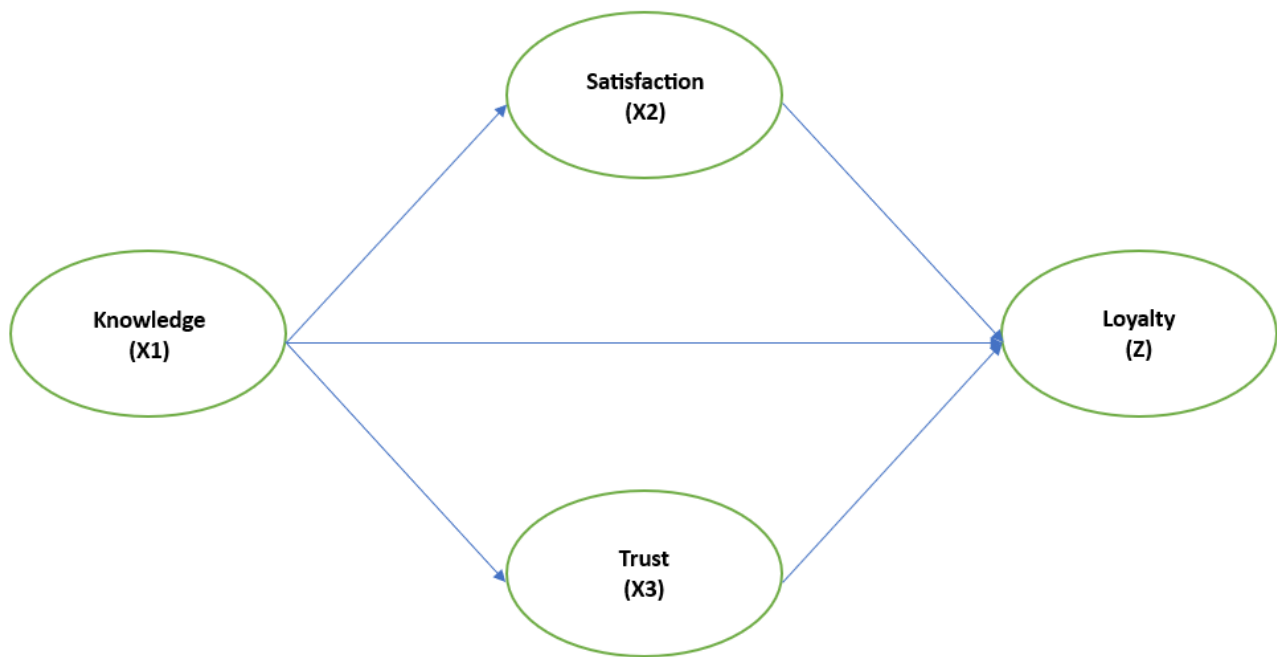


Figure 1. Research Framework

result of education. Still, there is some misunderstanding about specific Islamic bank products, such as the inability to distinguish between conventional bank and Islamic bank. Based on the earlier theoretical framework, the ensuing hypothesis can be formulated as follows:

H6: Satisfaction mediates knowledge on customer loyalty.

H7: Trust mediates knowledge on customer loyalty.

Customers with a favorable awareness of Islamic banks are more likely to become loyal. When customers are well-informed, they are more likely to trust and value Islamic bank's products and services. This kind of loyalty emerges with a high degree of interest and repeat purchases. This research modifies the study from Slack, Singh, & Sharma (2020) and Suchánek & Králová (2019) by adding trust as a mediator.

Based on the findings of previous researchers and theory for each variable above, the following study framework is depicted in Figure 1.

3. RESEARCH METHOD

This study employs a quantitative research approach, utilizing questionnaires that are processed and assessed to derive empirical data. The primary data is gathered from respondent responses, while secondary data is obtained from reputable sources like the Central Statistics Agency, the Financial Services Authority, and Bank Indonesia, as well as relevant journals and publications. The research methodology is an adaptation of the study conducted by Slack, Singh, & Sharma (2020) and Suchánek & Králová (2019).

The formulated formula is as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

$$X_2 = a + b_1X + e$$

$$X_3 = a + b_1X + e$$

Note: a = constant; b = coefficient; X1 = knowledge; X2= satisfaction; X3 = trust; Y = loyalty; e = error

The study's independent variable is knowledge, the dependent variable is loyalty, and the intervening variables are trust and satisfaction. The research instrument is validated through the bootstrapping process utilizing the Structural Equation Model (SEM). SEM employs flexible assumptions and incorporates various indicators within a single latent variable to mitigate measurement errors (Guenther et al., 2023). The estimating approach encompasses several steps. Initially, a model specification is established based on relevant theoretical frameworks. Subsequently, methods for measuring the

constructs of interest are determined. Data collection follows, and the collected data is then entered into the analysis. Next, the data is fitted into the designated model, and results are provided, including all model fit statistics and parameter estimates. Following this, the data, typically in the form of a covariance matrix representing the variables of moderate nature, is input. Estimations are generated in line with research requirements, and the collected data is aligned with the previously constructed model (Kono & Sato, 2023). For this study, construct measurements were developed for several variables: knowledge, satisfaction, trust, and loyalty, each comprising 5 items adapted from Slack, Singh, & Sharma (2020) and Suchánek & Králová (2019). The measurement of the variables refers to and adopts previous research, modified according to the research purpose. All the variables, dimensions, and indicator statements in this study can be found in Appendix A.

In this research, the independent variable "knowledge" (X1) was measured using 5 statement items, referring to the study of Slack, Singh, & Sharma (2020), with indicators including (1) principles of justice, (2) ease of access, and (3) knowledge of products, principles, contracts, and services. The dependent variable "loyalty" (Y) was measured using 5 statement items referring to the research of Slack, Singh, & Sharma (2020), with indicators including (1) repurchase, (2) recommendation, (3) purchase of other product lines, and (4) not affected by other products. Additionally, the variables mediating the relationship between the independent and dependent variables are "satisfaction" (X2) and "trust" (X3), each measured using 10 statement items referring to the research of Suchánek & Králová (2019). Indicators for satisfaction include (1) positive perception, (2) responsiveness, (3) loyalty, and (4) product satisfaction, while trust indicators include (1) service availability, (2) openness, (3) security insurance, and (4) empathy. A 5-point Likert scale was used in the research questionnaire to measure each variable indicator. Responses from each respondent were then summed based on the variables and subsequently tested for the outer model of each respondent's responses (Kumari et al., 2020; Taherdoost, 2019).

The sample in this study comprises 105 respondents from the Association of Islamic Economists at DIY, each having at least one daily transaction and being customers in an Islamic bank for at least two years. The calculation method of Isaac & Michael (1995) was used to determine the sample size, and purposive sampling was employed from a population of 150 people in 2021. This technique was chosen to align with the research objectives, aiming to address the research problems effectively. The population was chosen for their good knowledge, consisting of lecturers, stakeholders, and practitioners at Sharia institutions.

To mitigate response bias, data was collected from both respondents and non-respondents to anticipate any potential bias. Selecting a target population with known essential characteristics from an existing database was considered a more effective approach (Hendra & Hill, 2019). In cases where the focus was on eligible respondents from IAEI members, online surveys or questionnaires were conducted.

4. DATA ANALYSIS AND DISCUSSION

The data processed in Excel yields descriptive statistics encompassing minimum, maximum, mean, and standard deviation values. These metrics are presented in Table 3 for reference.

The criteria for classifying the scale can be established by calculating the range, which involves subtracting the lowest score from the highest and then dividing by the number of categories (Gavião et al., 2023). In this case, the calculation results in $(5-1)/5=0.8$. Accordingly, the scale categories are defined as follows: 1.00-1.80 (very low); 1.81-2.60 (low); 2.61-3.40 (moderate); 3.41-4.20 (high), and 4.71-5.00 (very high). On average, respondents agreed with all statements. Knowledge received the highest average response at 4.1790, indicating a high level. This suggests that respondents generally view customer knowledge positively. Loyalty followed with an average value of 4.1467, signifying a high level. Satisfaction and trust also scored high with averages of 4.1367 and 4.0990, respectively. In summary, respondents responded positively to all questions.

The variable's minimum and maximum responses were 3.20 and 4.80, showing a generally favorable perception of customer loyalty. Contentment had the third-highest average of 4.1367, with responses ranging from 3.00 to 4.80, indicating high satisfaction. The trust received the fourth-highest average value at 4.099, with responses ranging from 3.00 to 4.80, suggesting a generally positive view of customer trust. Notably, the confidence variable exhibited the highest standard deviation (0.454), indicating a greater

Table 3. Statistic Descriptive-Outer Model

| Variable | Item | OL | CR | AVE | Min | Max | Mean | Std Dev |
|-------------------|------|-------|-------|-------|------|------|--------|---------|
| Knowledge (X1) | X1.1 | 0.924 | 0.959 | 0.824 | 3.40 | 5.00 | 4.1790 | .4178 |
| | X1.2 | 0.905 | | | | | | |
| | X1.3 | 0.883 | | | | | | |
| | X1.4 | 0.911 | | | | | | |
| | X1.5 | 0.915 | | | | | | |
| Satisfaction (X2) | x2.1 | 0.57 | 0.889 | 0.622 | 3.40 | 4.80 | 4.1367 | .3815 |
| | x2.2 | 0.81 | | | | | | |
| | x2.3 | 0.926 | | | | | | |
| | x2.4 | 0.85 | | | | | | |
| | x2.5 | 0.741 | | | | | | |
| Trust (X3) | x3.1 | 0.85 | 0.905 | 0.656 | 3.00 | 4.80 | 4.0990 | .4541 |
| | x3.2 | 0.843 | | | | | | |
| | x3.3 | 0.849 | | | | | | |
| | x3.4 | 0.742 | | | | | | |
| | x3.5 | 0.757 | | | | | | |
| Loyalty(Y) | y.1 | 0.6 | 0.833 | 0.506 | 3.20 | 4.80 | 4.1467 | .3422 |
| | y.2 | 0.807 | | | | | | |
| | y.3 | 0.817 | | | | | | |
| | y.4 | 0.766 | | | | | | |
| | y.5 | 0.516 | | | | | | |

diversity or range of responses. In contrast, loyalty showed the lowest standard deviation, implying less uniformity among respondents' answers.

In this study, the test examined the relationship between latent variables and their indicators, assessing construct validity (convergent and discriminant) as well as construct reliability. The validity test confirmed the research instrument's ability to measure the intended constructs, while the reliability test evaluated the instrument's consistency in measuring a concept. Convergent validity, evaluated using the outer loading score (OL), revealed that each research indicator variable had an outer loading greater than 0.5, meeting the criteria for convergent validity across all constructs.

The Composite Reliability (CR) values for all variables exceeded 0.6, indicating high reliability. This means that each variable demonstrates good internal consistency. Moreover, all variables met the reliable criteria based on the Average Variance Extracted (AVE) values, all of which exceeded 0.50. This indicates that all constructs are reliable. The inner or structural model was examined to determine the relationship between the research model's concepts, significance values, and R-square. This assessment was conducted using R-square for the dependent constructs, t-tests, and the significance of the coefficients of the structural path parameters (see Figure 2).

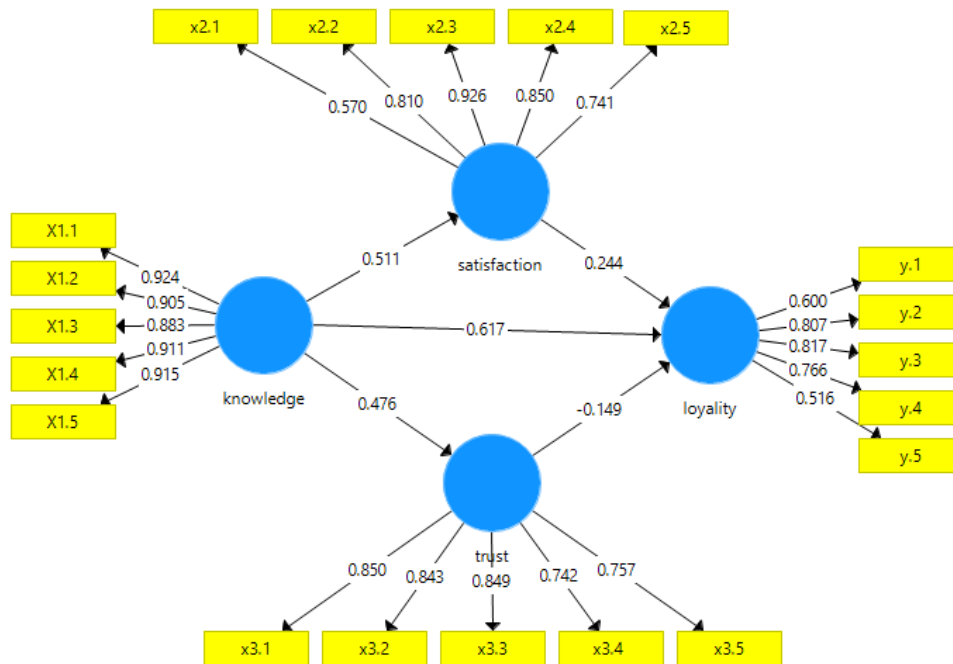
Table 4 provides an overview of the HTMT values. These values, all of which are <0.9, affirm that discriminant validity exists between the two reflective constructs. This indicates that the indicators employed in this study demonstrate strong discriminant validity (Schuberth et al., 2023). The Composite Reliability component serves to evaluate the reliability of indicators within a variable. The specific values for each variable utilized in this investigation are detailed below. To ensure the accuracy of measurements and testing, the Common Method Biases (CMB) test incorporates all constructs. This test demonstrates that no single factor accounts for more than 50% of the variance, affirming that CMB did not influence the outcomes of this study.

Table 4. Heterotrait-Monotrait Ratio (HTMT)

| Item | Knowledge | Loyalty | Satisfaction | Trust |
|---------------------|-----------|---------|--------------|-------|
| Knowledge | | | | |
| Loyalty | 0.787 | | | |
| Satisfaction | 0.539 | 0.529 | | |
| Trust | 0.436 | 0.444 | 0.753 | |

Table 5. The Common Method Biases Test**Extraction Sums of Squared Loadings**

| Total | % of Variance | Cumulative % |
|-------|---------------|--------------|
| 3.956 | 19.779 | 19.779 |

Extraction Method: Principal Component Analysis.**Figure 2.** Structural Model**Table 6.** R-Square Score

| Variable | R-Square |
|--------------|----------|
| Loyalty | 0.570 |
| Satisfaction | 0.461 |
| Trust | 0.627 |

As indicated in Table 6, the R-Square (R^2) for the loyalty variable stands at 0.57. This signifies that the knowledge variable accounts for 57% of the variability in loyalty, with the remaining 43% attributed to unexamined variables. In terms of satisfaction, the R^2 value is 0.461, denoting that 46.1% of the variance is explicable by knowledge, while the remaining 53.9% is influenced by unspecified factors beyond the scope of this study. Regarding confidence, the R^2 score amounts to 0.627%, implying that the knowledge variable elucidates 62.7%, and the remaining 37.3% is shaped by unexplored elements outside the purview of this research model. The R^2 value signifies the model's goodness of fit. In analogy to regression analysis, the Q-Square value mirrors the R-Square value. A higher Q-Square value indicates a better fit between the model and the data. The Q-Square value is calculated using the following formula:

$$Q^2 = 1 - [(1 - R^2_1) \times (1 - R^2_2) \times (1 - R^2_3)]$$

$$Q^2 = 1 - (1 - 0.570) (1 - 0.451) (1 - 0.627)$$

$$Q^2 = 1 - (0.430) (0.549) (0.373)$$

$$Q^2 = 1 - 0.087$$

$$Q^2 = 0.913$$

The Q^2 value of 0.913, computed from previous analyses, implies that the research model accounts for 91.3% of the variability in the study data. The remaining 8.7% is attributed to variables not encompassed by this research model. These findings affirm the strong goodness of fit of the research

model. For hypothesis testing in this study, t-statistics and P-values were employed.

The PLS estimation employs statistical simulation for each hypothesized relationship. To address anomalous data, the sample undergoes a bootstrap approach. Knowledge exerts a positive and significant influence on both customer satisfaction and trust in an Islamic bank, with a p-value of 0.000, underscoring its significance. Understanding consumer behavior and building familiarity with customers is pivotal for Islamic banks. Knowledge refers to information retained in the customer's memory, typically garnered from family, colleagues, or other individuals, as well as from Islamic bank advertising through various channels like brochures, print, and online media. This aligns with prior studies by Blackwell et al. (2006). Banks must comprehend customer behavior to meet their demands and ensure satisfaction with the products on offer. An open channel of communication enhances consumer knowledge and satisfaction, fostering trust. This resonates with findings by Namukasa (2013) and Christian et al. (2017), emphasizing that ample knowledge nurtures trust and contentment. Trusted individuals are perceived as possessing the necessary credibility to fulfill their commitments. Sharia-compliant banks must establish robust emotional connections and demonstrate unwavering dedication to fostering customer trust.

Satisfaction wields a positive and significant impact on customer loyalty, with a value of 0.034, reinforcing its importance. This finding is consistent with research by Buttle (2009) and Lubis et al. (2020). Enhanced customer satisfaction with a product bolsters customer loyalty, as positive experiences bolster the perceived credibility of the product. Satisfaction is a prerequisite for the success of a product, typically evidenced by its utilization and the acquisition of product-related knowledge, thus shaping the customer's cognitive framework. Responding to changes amid the pandemic, the digitalization of Islamic banking has had a positive influence, with numerous convenient features fostering customer loyalty. A research hypothesis is deemed valid if the p-value is less than 0.05. The detailed results are presented in Table 7.

A deeper understanding of a product augments satisfaction, as positive experiences amplify the product's credibility. Given that knowledge serves as the foundation for a product's success, the positive impact of knowledge is evident. Product knowledge encompasses various attributes, from categories and brands to terminology and traits, shaping a cognitive framework in the customer's mind. However, based on the test results, trust does not significantly affect customer loyalty, with a p-value of 0.182. Trust remains one of several determinants of customer loyalty, alongside satisfaction. This finding echoes the research by Cahyono et al. (2021) but contrasts with the findings of Slack et al. (2020). Economic conditions notably influence the decision to deposit funds, both in conventional and Islamic banks. Concerns about a financial crisis, prompted by the pandemic, are understandable. The cessation of numerous business activities disrupts borrowers' payments, potentially leading to bad credit, which, in turn, undermines consumer confidence in the banking industry's continuity. Factors like interest rates, yields, and assets influence depositor confidence. This shift may lead to a transition in the proportion of funds deposited in favor of conventional banks.

Customer satisfaction propels customer loyalty, as it is a response to a pleasant experience. Islamic banks must offer services that pique customer interest to bolster trust. Education plays a crucial role in shaping public perceptions of Islamic banks. Furthermore, through satisfaction, knowledge indirectly impacts loyalty, mediating between the two. This is corroborated by Filipe et al. (2017) and Suchánek, P., & Králová, M. (2019), affirming that a strong understanding of Islamic banks leads to high satisfaction and,

Table 7. Bootstrapping Estimation

| Variable | Original Sample | T-statistic | P Values |
|------------------------------------|-----------------|-------------|----------|
| Knowledge → Satisfaction | 0.511 | 8.075 | 0.000 |
| Knowledge → Trust | 0.476 | 8.247 | 0.000 |
| Satisfaction → Loyalty | 0.244 | 2.122 | 0.034 |
| Trust → Loyalty | -0.149 | 1.336 | 0.182 |
| Knowledge → Loyalty | 0.617 | 5.793 | 0.000 |
| Knowledge → Satisfaction → Loyalty | 0.125 | 2.008 | 0.045* |
| Knowledge → Trust → Loyalty | -0.071 | 1.337 | 0.182* |

Note: * indirect effect

Customers should be well-acquainted with Islamic bank products. From the customer's perspective, a product is a collection of attributes that meet their needs and desires and form the foundation of trust in Islamic banks. Consequently, Islamic banks must ascertain the public's awareness of their offerings and whether there is a demand for them.

The p-value for testing the knowledge variable on loyalty through trust was 0.182, indicating that trust does not mediate the relationship between knowledge and customer loyalty. This suggests that knowledge has a direct impact on customer confidence in Islamic bank products and services. Knowledge is typically acquired through various channels like family, coworkers, print, and online media. Sufficient knowledge instills confidence in customers, encouraging continued use of services (Slack et al., 2020). With a p-value of $0.000 < 0.05$, the test affirms that sound product knowledge cultivates consumer loyalty, leading to sustained product and service usage, as well as advocacy for others. This research aligns with the findings of Suchánek & Králová, (2019). Customers with in-depth knowledge directly influence purchasing decisions and foster loyalty. Customer loyalty is further bolstered by the accuracy of information provided to customers, shaping a favorable perception of the company's image (Komejani & Mohaghegh, 2017). Islamic banks must maintain accurate product and service information to bolster their image and foster customer loyalty (Bontis et al., 2007).

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

The trend of digital-based services is on a steady rise. The pandemic has notably shifted customer behavior toward greater reliance on digital services, resulting in fewer visits to physical branch offices. Digital banking Services cater to Islamic bank customers, offering them information, communication, and banking transactions through innovative digital platforms for a more efficient customer experience. Examples of these innovations include Digital Account Opening, QRIS (payment via QR code), and streamlined account opening procedures at branch offices. These advancements reduce the need for paper transactions and also facilitate easier access to call center services. Through these innovations, Islamic banking institutions can disseminate information about the advantages of these services, leading to increased knowledge, trust, customer satisfaction, and ultimately, customer loyalty. Regular updates and enhancements to digital services can further boost consumer loyalty and expand the customer base, especially among millennials.

While the COVID-19 pandemic has certainly impacted various aspects of customer needs, the adaptability of customers in embracing technological advancements means that many of the challenges faced can be effectively addressed. The role of product and service providers is crucial in fostering consumer loyalty in Islamic banking, as evidenced by their support during this pandemic era. These findings suggest that policymakers in Islamic banking must embrace technology, as the convenience and security of banking transactions remain paramount for customers, especially in light of social distancing measures. Providing clear information, conducting effective socialization efforts, and demonstrating the ability to navigate pandemic-related risks will enhance customer confidence. Islamic banks can actively engage in public education efforts to counter negative narratives. Transparent communication about Islamic banks will empower customers with knowledge, leading to heightened satisfaction. The result is a loyal customer base that trusts the performance of Islamic banks even in the midst of a pandemic. Given the current global situation, it is imperative for Islamic banks to bolster consumer confidence. A range of strategies can be implemented, including leveraging social media for product marketing, utilizing mobile and digital billboards for advertising, consistently enhancing banking application functionality, offering incentives to new customers upon account opening, and collaborating with various media outlets to address any unfavorable perceptions surrounding Islamic banks.

This research underscores the theoretical importance of effective communication management and the cultivation of strong customer relationships, particularly during the ongoing pandemic. Sharia-compliant banks must prioritize efforts to navigate the challenges posed by rapid technological advancements and concerns about economic uncertainties, all while striving to maintain customer loyalty. While the direct impact of education during the pandemic on customer reliability may be limited, enhancing consumer loyalty requires the mediation of trust and contentment regarding the performance of Islamic banks. Future research should consider additional factors such as satisfaction, loyalty, religiosity, brand reputation, and brand image, among others, that influence customer loyalty towards Islamic bank products and services (Abror et al., 2020; Arasli et al., 2021; Muflih, 2021). These variables can be manipulated to examine mediator or moderator effects, providing deeper insights into their relationship with loyalty. In this study,

we illustrate the use of customer trust and satisfaction as mediators.

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APPENDIX A

| Variabe | Dimension | Indicator Statement |
|---------------------|---|--|
| Knowledge | (1) Principles of justice, | I know and understand what sharia banking is – X1.1 |
| | (2) Ease of access, | I understand the difference between Islamic banks and conventional banks – X1.2 |
| | (3) Knowledge of products, principles, contracts and services | I know the products of Sharia Bank – X1.3 |
| | | I know that there is a DPS (Sharia Supervisory Board) which is tasked with supervising the operations of Sharia Banks - X1.4 |
| | | I find it easy to make transactions – X1.5 |
| Satisfaction | (1) Positive perception, | I am satisfied with the services provided by Sharia Bank – X2.1 |
| | (2) Responsive, | I am satisfied with the products and services offered through Bank Syariah – X2.2 |
| | (3) Loyalty | I am very satisfied with Bank Syariah's excellent service – X2.3 |
| | (4) Product satisfaction | I feel satisfied because Sharia banks provide satisfactory answers to all the problems I face. – X2.4 |
| | | I would recommend other people to use Islamic banks – X2.5 |
| Trust | (1) Service availability, | I believe in the availability of products and services that customers need – X3.1 |
| | (2) Openness, | I believe that Sharia Bank employees have done their work according to the Standard Operating Procedure – X3.2 |
| | (3) Security insurance, | I believe that Bank Syariah employees are consistent in providing quality services. - X3.3 |
| | (4) Empathy | I believe Islamic banks never hide important information - X3.4 |
| | | I believe sharia banks guarantee transaction security – X3.5 |
| Loyalty | (1) Repurchase, | I will carry out repeat transactions via Sharia banking services continuously – Y.1 |
| | (2) Recommendation, | I will continue to carry out transactions other than saving, such as paying bills or other services – Y.2 |
| | (3) Purchase other product lines, | I recommend Bank Syariah products and services to others - Y.3 |
| | (4) Not affected by other products | I am not interested in switching to a conventional bank – Y.4 |
| | | I am a loyal customer of Sharia Bank Y.5 |