



# Service Quality, Shariah Compliance and Customer Satisfaction of Islamic Banking Services in Malaysia

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**Abstract:** The present study investigates the level of service quality and customer satisfaction of Islamic banks in Malaysia based on demographics such as gender, nationality, experience with the bank and income. This study surveyed 179 customers who have had first-hand experience with Islamic banking services in Malaysia. The research data was analysed based on reliability analysis, independent samples t-tests and one-way ANOVA using SPSS version 23. The research findings indicate that Malaysian customers have a better perception of reliability, responsiveness, assurance, empathy, tangibles and satisfaction compared to international customers. The findings also suggest that the customers who have 6–10 years' experience with Islamic banking services, have a better perception of reliability, assurance and Shariah compliance compared to other experience groups.

**Keywords:** Service Quality, *Shariah* Compliance, Customer Satisfaction, Islamic Banking, Malaysia.

**JEL Codes:** G21, Z12

## Introduction

The Islamic banking system has gained worldwide popularity (Naser, Jamal, & Al-Khatib, 1999) as evidenced by the current number (396) of Islamic banks and financial institutions located in Asia, Africa, Europe and the Americas with over 9,500 branches and approximately \$442 billion operating capital. Its popularity is not confined to Islamic banks but large international conventional banks have also

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begun showing interest in it. For example, Citibank has branches located in Bahrain and Sudan operating according to Islamic *Shari'ah* principles. This reality has added to the challenges faced by Islamic banks – those who are operating in Islamic countries face great competition from both Islamic banks and conventional banks.

Although the Islamic banking system seems different from its conventional counterpart, certain similarities can be traced. For example, an Islamic bank generally conducts activities according to the Islamic *Shari'ah* principles with the giving and receiving of interest totally prohibited. On the other hand, it may also offer products and services similar to those offered by its conventional counterpart (Naser et al., 1999).

In Malaysia, the Islamic banking service is one of the key contributing factors for the increase in the national GDP. Islamic banking and finance today has emerged as an important component of the overall Malaysian financial system that contributes to the growth and development of the Malaysian economy. Since 2000, the domestic Islamic banking industry has been growing at an average rate of 18 percent per annum in terms of its assets. It was the aspiration of the Malaysian government to have a strong Islamic banking industry capturing 30 percent of market shares of financing and deposits in the Malaysian financial industry by 2020. According to the world Islamic banking competitiveness report 2016, the current market share of Malaysian Islamic banking and finance, globally and nationally stands at 15.5 and 21.3 percent respectively. In this regard, the ability of the Islamic banking industry to capture a significant market share in a rapidly evolving and challenging financial environment particularly in a dual-banking system like Malaysia, is dependent on the strategic positioning of the Islamic banking players to maintain their competitive edge and offer services and products that satisfy the needs of their customers. Therefore, this study investigates the customers' perception of service quality, *shariah* compliance and satisfaction of the Islamic banking service in Malaysia based on their demographics.

## Literature Review

### ***Development of Islamic Banking***

Forty years ago, Islamic banking was an unknown term as its establishment was thought to be “wishful thinking”. Only after the launch of the First International Conference on Islamic Economics organized by King Abdul Aziz University in Makkah, Saudi Arabia and the establishment of the first commercial Islamic bank,

Dubai Islamic Bank (DIB) in the United Arab Emirates, followed by the establishment of the Islamic Development Bank (IDB) in Jeddah, Saudi Arabia in the early 70s. In countries such as Egypt, Sudan, Kuwait and Bahrain semi-private and private Islamic banks began to be established. Islamic banking then began to assert itself as a viable and feasible alternative to financial intermediation as well as an efficient and productive mean to undertake financial intermediation between surplus and deficit economic units (Iqbal & Molyneux, 2006).

From then on, Islamic banking has seen a significant growth and has gained tremendous momentum, doubling the digit for annual growth rate. Presently, Islamic banking has proven itself not to be merely a transient structure in the banking world but as a force that is rapidly growing (Ariff, 1988). Currently, it is one of the fastest growing industries. From a mere few hundred thousand dollars in 1975, its size has grown tremendously to reach hundreds of billions of dollars by 2010. Islamic banking is growing rapidly, spreading from East to West, all the way from Indonesia and Malaysia to Europe and the Americas and is not limited to Arab and Muslim countries only. Interestingly, many conventional banks, including some major multinational western banks have also started using Islamic banking techniques.

### ***Service Quality***

Service quality plays an important part in customer satisfaction because it is the customers who are the patrons of the products or services. Consequently, efficient tools to assess service quality are invaluable to companies who earn their revenues in part from delivery of service. Recently, the most widespread service quality tool is SERVQUAL (Landrum, et al., 2009).

SERVQUAL was first developed by Parasuraman et al. (1988) as a generic instrument used for the measurement of service quality on the basis of the input of focus groups. Despite its development in the marketing sector, it is widely used in various organizational settings such as libraries and information centres (Nitecki, 1996). Since its inception, several researchers have used the 22-item scale to examine service quality in various sectors of the service industry with the inclusion of financial institutions (Gounariset al., 2003; Arasli et al., 2005).

SERVQUAL is based on the rationale that the degree of service quality perceived by customers can be measured between customer's expectations and what they actually receive from the provider. Based on Parasuraman et al. (2005) and various other researches (Markovic, 2006; Sahu, 2006; Wu et al., 2004; Siu et al., 2001; & Al-Tamimi et al., 2003), there are five facets of service quality; tangibles comprising

of physical facilities, equipment and personnel appearance; reliability comprising of the ability to perform the promised service in a dependable and accurate way; responsiveness comprising of willingness to help customers and to provide a timely service; assurance comprising of knowledge and courtesy of employees and their ability to generate trust and confidence and finally; empathy comprising of caring and individualized attention that the customers are recipients of.

### ***Service Quality in Islamic Banking Service***

The quality of service plays a vital role in any service related industry. While the service sector occupies a large portion of the economy, service quality studies have been largely overlooked compared to its product counterpart (Sousa & Voss, 2002; Ghobadian et al., 1994). The World's Islamic banks including the Islamic banks in Malaysia have been experiencing many challenges, while Cui et al. (2003) advocates the service quality's role in the survival and success of the banking sector.

In service organizations, enhancing service quality is now considered the most important step in gaining a competitive edge in the market. Therefore, understanding and meeting customer requirements have now become the basis of quality activities for major enterprises. Islamic banks should be no different from these enterprises as they have an immense role to play in establishing a *Shari'ah* based banking system on a global scale.

With intensive competition and the fact that banks are offering products and services that are similar, customer satisfaction through quality of service becomes the deciding factor that can affect an Islamic bank's performance and consolidate its competitive edge and success. Therefore, it is of utmost importance to study the level of customer satisfaction in Islamic banks.

## **Methodology**

This study collected data by means of self-administered questionnaires. The research instrument is developed in sections A, B, and C. Section A pertains to the respondents' demographic information such as gender, nationality, type of bank account, years of experience with the bank and income. Section B was developed based on the quality of the Islamic banking service in Malaysia. This section measures five dimensions of service quality namely; reliability, responsiveness, assurance, empathy and tangibles. Similarly, section C pertains to Islamic *shariah* compliance and customer satisfaction with the Islamic banking organisations in Ma-

Malaysia. Both sections B and C were measured by 32 items and a 5-point Likert scale was used to evaluate the responses. In this study, 350 questionnaires were distributed to the respondents who have experience in using Islamic banking services in Malaysia. Out of the 350 distributed questionnaires, the researchers received 179 responses that makes a response rate of 51.14%. The research questionnaires were distributed to the respondents in different places in Malaysia. A small gift as incentive was offered with each questionnaire in order to increase the response rate, but participation was entirely voluntary. Having conducted the survey, the data was analysed according to means, reliability analysis, independent samples t-tests, and one-way ANOVA via SPSS version 23.

## Data Analysis

This study comprises three sections of data analysis. The first section is a descriptive analysis based on the demographic information of the respondents. The second section discusses the reliability of the research instrument. The third section performs a comparative analysis of service quality, *shariah* compliance and customer satisfaction with Islamic banks based on demographic variables by using independent samples t-tests and one-way ANOVA.

### **Demographical Profile of the Respondents**

The descriptive analysis revealed that the majority of the respondents (52.2%) were male, whereas 47.8% respondents were female. In this study, 111 (63.4%) respondents were Malaysian and 64 (36.6%) respondents were international. Regarding the bank account of the respondents, 137 (76.97%) respondents were using a saving account, whereas 41 (23.03%) respondents were using a current account. The respondents were asked about their years of experience with the bank, based on the descriptive analysis it was observed that the majority of the respondents had 3 – 5 years (35.2%) and 1 – 2 years (33.5%) experience with the current Islamic banking services. The income of majority of the respondents was below RM 1000 (29.6%) and RM 1000 – RM 3000 (30.7%), whereas, 16.2%, 10.6%, and 6.7% respondents' income was RM 3100 – RM 5000, RM 5100 – RM 10000 and above RM 10000 respectively (see Table 1).

**Table 1**  
Demographic Profile of the Respondents

<b>Demographic Variable</b>	<b>Frequency</b>	<b>Percent</b>
Gender		
· Male	94	52.2
· Female	85	47.8
Nationality		
· Malaysian	111	63.4
· International	64	36.6
Type of Account		
· Current account	41	23.03
· Saving account	137	76.97
Years of experience with bank		
· 1 - 2 years	60	33.5
· 3 - 5 years	63	35.2
· 6 - 10 years	32	17.9
· 11 years and above	19	10.6
Income		
· Below RM 1000	53	29.6
· RM 1000 - RM 3000	55	30.7
· RM 3001 - RM 5000	29	16.2
· RM 5001 - RM 10000	19	10.6
· Above RM 10000	12	6.7

### **Reliability Analysis**

According to Malhotra (2010), reliability refers to the extent to which measurements of the particular test are repeatable. Hair et al. (2010) says, reliability is an “assessment of the degree of consistency between multiple measurement of variables”. In other words, reliability is the degree of uniform results on repeated trials given by an instrument measure (Sekaran & Bougie, 2010). In this study, Cronbach’s alpha was used to test internal consistency of 32 items for seven dimensions,

namely reliability, responsiveness, assurance, empathy, tangibles, Islamic *shariah* compliance and customer satisfaction. Cronbach's alpha score ranges from 0 to 1, with values close to 1 indicating a high consistency (Hair et al., 2010). Table 2 illustrates the Cronbach's alpha for all items and seven dimensions of the study. For all items Cronbach's alpha is 0.908 and for seven dimensions alpha values ranged from 0.712 to 0.893, exceeding the minimum requirement of 0.70 Cronbach's alpha which indicates overall instruments were very reliable for this study.

**Table 2**  
Reliability Analysis of the Research Variables

<b>Dimension</b>	<b>Number of Items</b>	<b>Cronbach's Alpha</b>
Reliability	5	0.751
Responsiveness	4	0.712
Assurance	4	0.806
Empathy	5	0.747
Tangibles	4	0.770
Islamic <i>Shariah</i> Compliance	7	0.893
Customer Satisfaction	3	0.713
All items	32	0.908

### ***Comparison Analysis on Service Quality, Shariah Compliance and Customer Satisfaction***

This study analysed seven dimensions of the research variables namely; reliability, responsiveness, assurance, empathy, tangibles, Islamic *shariah* compliance and customer satisfaction based on independent samples t-test and one-way ANOVA (see Table 3, 4, 5 and 6).

### ***Independent Samples t-Tests***

Independent samples t-tests were used to identify the differences or conformance between customer perceptions on five service quality dimensions, Islamic *shariah* compliance and customer satisfaction with the Islamic banking service in Malaysia based on nationality and type of bank account (see Tables 3 and 4). According to the results of independent samples t-test, there is no significant difference between the current accounts and saving accounts of the respondents in service quality, Islamic

*shariah* compliance and customer satisfaction with the Islamic banking service in Malaysia (see Table 4). However, Table 3 illustrates that there are five significant differences between Malaysian and international respondents on Islamic banking service in Malaysia. The independent samples t-test results indicated that Malaysian customers have a higher perception of reliability ( $\mu = 3.5261$ ), responsiveness ( $\mu = 3.4279$ ), assurance ( $\mu = 3.6959$ ), empathy ( $\mu = 3.4468$ ), tangibles ( $\mu = 3.8131$ ) and customer satisfaction ( $\mu = 3.7685$ ) compared to international customers.

**Table 3**

Independent samples t-test on nationality

<b>Variables</b>	<b>Nationality</b>	<b>N</b>	<b>Mean</b>	<b>t-value</b>	<b>Sig.</b>
Reliability	Malaysian	111	3.5261	2.601	0.013*
	International	64	3.1531		
Responsiveness	Malaysian	111	3.4279	3.356	0.001**
	International	64	2.9336		
Assurance	Malaysian	111	3.6959	3.464	0.001**
	International	64	3.1914		
Empathy	Malaysian	111	3.4468	2.914	0.005**
	International	64	3.0500		
Tangibles	Malaysian	111	3.8131	3.431	0.001**
	International	64	3.3359		
<i>Shariah</i> Compliance	Malaysian	111	2.8404	1.208	0.214
	International	64	2.5804		
Customer Satisfaction	Malaysian	111	3.7685	3.236	0.001**
	International	64	3.4098		

**Note:** \* variable is significant at the 0.05 level and \*\* variable is at the 0.01 level (2 tailed).



**Table 4**

Independent samples t-test on types of bank account

<b>Variables</b>	<b>Types of Account</b>	<b>N</b>	<b>Mean</b>	<b>t-value</b>	<b>Sig.</b>
Reliability	Current account	41	3.3920	0.011	0.991
	Saving account	137	3.3898		
Responsiveness	Current account	41	3.4400	1.122	0.264
	Saving account	137	3.2026		
Assurance	Current account	41	3.5800	0.446	0.656
	Saving account	137	3.4872		
Empathy	Current account	41	3.5920	1.747	0.083
	Saving account	137	3.2526		
Tangibles	Current account	41	3.6900	0.460	0.646
	Saving account	137	3.5967		
<i>Shariah</i> Compliance	Current account	41	2.7714	0.194	0.847
	Saving account	137	2.7132		
Customer Satisfaction	Current account	41	3.8000	1.178	0.241
	Saving account	137	3.6212		

*ANOVA Tests*

According to Hair et al. (2010), analysis of variance (ANOVA) is a statistical technique for testing the hypothesis that there is no significant difference between two or more population means. In this study, the researchers used one-way ANOVA test to investigate the significant differences between customers' incomes and their years of experience with bank in service quality dimensions, Islamic *shariah* compliance and customer satisfaction with the Islamic banking service in Malaysia. From the test results, it was observed that there is a significant difference among income groups of the respondents on service quality dimensions, Islamic *shariah* compliance and customer satisfaction with the Islamic banking service in Malaysia. (see Table 5). However, results also indicated that there are significant differences in years of experience of the customers on reliability ( $p = 0.047$ ), assurance ( $p = 0.002$ ) and *shariah* compliance ( $p = 0.021$ ). The results also indicated that those customers who have 6 – 10 years experience with the Islamic banking service, have a better perception of reliability ( $\mu = 3.6813$ ), assurance ( $\mu = 3.8438$ ) and *shariah* compliance ( $\mu = 3.2455$ ) compared to other experience groups (see Table 6).

**Table 6**

One-way ANOVA tests of service quality and customer satisfaction with Islamic banking based on experience with bank

<b>Variable</b>	<b>Experience with bank</b>	<b>N</b>	<b>Mean</b>	<b>F-value</b>	<b>Sig.</b>
Reliability	1 - 2 years	60	3.1500	2.700	0.047*
	3 - 5 years	63	3.4825		
	6 - 10 years	32	3.6813		
	11 years and above	19	3.3263		
Responsibility	1 - 2 years	60	3.0250	2.182	0.092
	3 - 5 years	63	3.2659		
	6 - 10 years	32	3.5078		
	11 years and above	19	3.4605		
Assurance	1 - 2 years	60	3.1458	5.121	0.002**
	3 - 5 years	63	3.5952		
	6 - 10 years	32	3.8438		
	11 years and above	19	3.7368		
Empathy	1 - 2 years	60	3.0733	2.455	0.065
	3 - 5 years	63	3.4063		
	6 - 10 years	32	3.5063		
	11 years and above	19	3.1579		
Tangibles	1 - 2 years	60	3.5167	1.744	0.160
	3 - 5 years	63	3.5675		
	6 - 10 years	32	3.8125		
	11 years and above	19	3.9737		
Shariah Compliance	1 - 2 years	60	2.3929	3.326	0.021*
	3 - 5 years	63	2.8481		
	6 - 10 years	32	3.2455		
	11 years and above	19	2.3759		
Customer Satisfaction	1 - 2 years	60	3.5593	2.330	0.076
	3 - 5 years	63	3.5738		
	6 - 10 years	32	3.9355		
	11 years and above	19	3.6111		

**Note:** \* variable is significant at the 0.05 level and \*\* variable is at the 0.01 level (2 tailed).

## Conclusion

The findings of this research show that Malaysian customers have a better perception of reliability, responsiveness, assurance, empathy, tangibles and satisfaction compared to international customers. The research results also indicated that those customers who have 6 – 10 years' experience with the Islamic banking service, have a better perception of reliability, assurance and Islamic *shariah* compliance compared to other experience groups. However, this research could not find any significant difference in service quality, *shariah* compliance and customer satisfaction based on types of bank account and income. Malaysian Islamic banking organisations need to focus on their foreign customers to improve their perception of the service quality and customer satisfaction. They also need to focus on their new and old customers to meet their expectations of the Islamic banking services. To improve their quality performance, the banks must design service standards that promote reliability to customers, consistency in service delivery and not promise more than what they are able to deliver (Phiri & Mcwabe, 2013). In addition, banking organisations need to have well-planned strategies to strengthen the dimensions of service quality to improve customer perceptions (Akhtar & Zaheer, 2014).

The present findings indicate that Malaysian Islamic banks must strive hard towards improving all the dimensions and items of service quality in order to foster higher perceived service quality and customer satisfaction. The management teams in Islamic banks are expected to take the findings of this research for future redesigning of banking services, which may help them to fulfil their vision to have the best Islamic banks. The findings of the research may also be useful to Islamic banks operating in other countries in regards to efficient and effective operations.

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