
International Journal of Excellence in Islamic Banking and Finance

Islamic Banking Service Quality and Withdrawal Risk: The Indonesian Experience

Muhamad Abduh

Department of Business Administration
Kulliyah of Economics and Management Sciences
International Islamic University Malaysia

ISSN 2220-8291

VOLUME 1 – Issue 2

September 2011

© Hamdan Bin Mohammed e-University, 2011

Abstract

Purpose

This paper aims first to evaluate the service quality of Islamic banking and second to explore the withdrawal behavior of Islamic banking depositors based on their evaluation towards its service quality in the context of Indonesia.

Design/Methodology/Approach

A total of 276 Islamic banking customers in Jakarta, Indonesia, were involved through a direct survey. Factor analysis was carried out to uncover the key dimensions of Indonesian

Islamic banking service quality. Next, we use central tendency measurement to extract the information of depositors' withdrawal behavior towards those dimensions. Afterwards, the importance and performance analysis (IPA) was employed to evaluate the level of Indonesian Islamic banking service quality.

Findings

The exploratory factor analysis uncovered five key dimensions of Indonesian Islamic banking service quality, including reliability, bank-customer relationship, tangibles, Shari`ah issues, and rates and charges. Shari`ah and tangible are the first and second most influence factors for depositors to withdraw their funds from Islamic bank. However, despite their high level of importance, Shari`ah and tangible were always perceived poor in performance while others were largely modest. Within this kind of situation, withdrawal risk is, therefore, should be the most potential risk to be anticipated.

Originality/Value

This paper conducts an empirical research on Islamic banking service quality as an approach for detecting withdrawal risk in the context of Indonesia.

Keywords: service quality, withdrawal risk, Islamic banking, Indonesia.

Background

Islamic banking and finance is experiencing a rapid growth worldwide. International Monetary Fund (IMF) stated that Islamic banking is one of the fastest growing segments in the financial industry with a tracking of 10-15% growth over the past decade, and globally, Islamic banking assets are estimated to grow around 15% a year of \$1 trillion by 2016 [1].

In Indonesia, the year 1992 marked the inception of the Islamic banking industry, with the establishment of the first Islamic bank in Jakarta, Bank Muamalat Indonesia. It remained the only Islamic commercial bank until the

financial crisis 1997, which caused massive instability to the financial systems of many governments, particularly Indonesia.

During the time of the crisis, the Capital Adequacy Ratio of Bank Muamalat Indonesia was 12% while other banks were collapsed and liquidated (Bank Muamalat Indonesia, 2002). In 1999, the Islamic banks grew in number to two Islamic commercial banks, one Islamic window and 78 Islamic rural banks.

Islamic Banks	Year				
	1992	1999	2002	2006	2010*
Islamic commercial banks	1	2	2	3	10
Islamic windows	0	1	6	20	23
Islamic rural banks	9	78	83	105	146
Number of branches	1	40	127	637	1640

Table 1: Indonesian Islamic Banking Networks

Source: various issues of Bank Indonesia monthly statistics.

* As per July 2010.

To date, Islamic banking in Indonesia has developed to ten Islamic commercial banks with 1,113 branches and 23 Islamic windows of the conventional banks with 251 branches. The total number of Islamic rural banks also increased significantly from 105 in 2006 to 146 in July 2010. As a result, there are 1,640 branches of Islamic banks spreading in the country (see table 1). The consequence of this development is that Indonesian Islamic banks are faced with strong competition not only from other Islamic banks but also from its conventional counterparts. Moreover, a large number of conventional banks are offering Islamic window.

In fact, some big banks have turned their Islamic wings into a full-pledged Islamic banking (i.e. Bank Central Asia Syariah, Bank Syariah Mandiri, BNI Syariah, and Bank Rakyat Indonesia Syariah). When competition intensifies and when banks start to offer more or less similar products and services, it is the customer's satisfaction on service quality that can influence the performance of an Islamic bank and determines its competitiveness and success (Naser et.al., 1999). Therefore, it is very important for Islamic bankers and scholars to evaluate and later on to improve the service quality of Islamic banking, particularly in Indonesia.

In addition, since Islamic banking operation is theoretically centered more on the profit and loss sharing concepts, hence, among its major concerns to be successful and survive is to keep deposits stable and in a large volume. For a country with dual banking system like Indonesia, its Islamic banks are facing withdrawal risk as the return on customer deposits can vary (Ahmed, 2002). The situation is worsened when other banks are offering higher return on deposit. Ahmed (2003), based on survey conducted in three countries e.g. Bahrain, Bangladesh and Sudan, found that other triggers which can lead depositors to withdraw their funds from Islamic banks are mismanagement of depositor's fund, Shari'ah non-compliance issue, and bad reputation on services. This withdrawal risk issue, therefore, should also be given a high attention in order to maintain stability and sustain large volume of deposits. In fact, looking back to its triggers, withdrawal risk is surely highly correlated with customer satisfaction on Islamic banking service quality.

To the best of the author's knowledge, however, study attempted to evaluate service quality of the Islamic banking is limited contrast to conventional one. Moreover, study which uses service quality framework as an approach to identify one particular risk in Islamic banking is not yet found. This paper, therefore, is aimed at: (i) evaluating the service quality of Islamic banking and (ii) exploring the withdrawal behavior of Islamic banking depositors based on their evaluation towards its service quality in the context of Indonesia.

The rest of the paper is organised in five sections. Section two is the review of past studies showing the significant relationship between customer satisfaction and organization's profit and the rationale of withdrawal risk in Islamic banking institution. Section three involves the discussion of the samples, methods and findings from the analysis. Section four presents the conclusions while section five provides suggestions and directions for future research.

Customer Satisfaction and Withdrawal Risk in Islamic Banking

Customer Satisfaction

Customer satisfaction has been a critical concept in contemporary marketing thought (Naser et.al., 1999). It is a measure of how organization's total product performs in relation to a set of customer requirements (Hill and Alexander, 2006). In the banking industry, as competition is becoming tougher, banks are now focusing on increasing customer satisfaction and customer retention through their improved quality of services (Goode and Moutinho, 1996; Levesque and McDougall, 1996).

Customer satisfaction is essential for retail banks as it has an impact on the organization's profit (Levesque and McDougall, 1996). Moreover, in today's competitive environment, providing quality service is an essential strategy for success and survival (Liang and Wang, 2004). In line with this, Trubik and Smith (2000) and Garland (2002) had identified direct and strong relationship between customer loyalty and

customer profitability in retail banking, while Wisskirchen et al (2006) found that long-term growth and profitability of banks relies on banks' ability to attract and retain loyal customers.

There were various dimensions of service quality revealed in this area of study. Parasuraman et al. (1985), for instance, identified 11 dimensions of service quality: reliability, responsiveness, competence, access, courtesy, communication, credibility, security, competence, understanding the customer, and tangibles. Berry et al. (1985) and Zeithaml and Bitner (1996) indicated that service quality consists of five dimensions: tangibles (appearance of physical facilities, equipment, personnel, and written materials), reliability (ability to perform the promised service dependably and accurately), responsiveness (willingness to help customers and provide prompt service), assurance (knowledge and courtesy of employees and their ability to inspire trust and confidence), and empathy (caring and individual attention the firm provides its customers).

Whilst a large number of studies have been carried out in the framework of conventional banking, papers attempted to study customer satisfaction upon Islamic banking service quality are limited [2]. Among this limited papers are papers written by Naser et al (1999), Al-Tamimi and Al-Amiri (2003), Okumuş (2005), Abdul Kader and Norizan (2009), Osman et al (2009), Hossain and Leo (2009), and Golmohammadi and Jahandideh (2010).

According to those studies, customers of Islamic banking are showing considerable degrees of satisfaction and dissatisfaction from many Islamic bank's facilities, services, and products in various countries. The customers are aware of specific Islamic banking products such as murabaha, musharakah, and mudarabah; however, they showed that they only deal with some of them (Naser et al, 1999; Okumuş, 2003). In terms of rating the service quality dimensions, many studies from different countries have presented different results. For instance, Al-Tamimi and Al-Amiri (2003) in UAE, Hossain and Leo (2009) and Abdul Kader and Norizan (2009) in Qatar found that tangibles and empathy are the most important dimensions.

In Iran, Golmohammadi and Jahandideh (2010) found that reliability is the most important dimension and tangible is the least important dimension for Iranian customers. However, those studies seem to ignore the most critical dimension for costumers whose stay in dual banking system countries like Indonesia which is 'Shari`ah-aspect'. Therefore, by including some items related with 'Shari`ah-aspect' in the questionnaire such as 'Shari`ah compliance product and services', 'appropriate attire of female bank staff', and 'bank's type (either full-fledged Islamic bank or Islamic window of conventional banks)', the first three research questions (RQ) in this paper are:

RQ1: What are the fundamental dimensions of service quality in Indonesian Islamic banking?

RQ2: Can 'Shari'ah-aspect' be as one of the fundamental dimension in Indonesian Islamic banking service quality?

RQ3: How is the performance of those service quality dimensions from the perspective of Indonesian customers?

Withdrawal Risk

At the initial stages of the development of Islamic banking, there were two models developed namely two-tier mudarabah model and one-tier mudarabah model (Iqbal et.al., 1998). The two-tier mudarabah model means Islamic bank replaces the interest with PS modes on both liability and asset side while the one-tier mudarabah model means the bank takes the form of PS on the liability side only, while in the financing it uses fixed-income (FI) modes. Nonetheless, there is only one model developed and adopted in most countries in the world today. Ahmed (2002) argues that the main reason why one-tier mudarabah model evolved is due to the practical and operational problems faced by Islamic banks in using profit-sharing (PS) modes on the asset side.

Nonetheless, regardless the model implemented, using PS principle to reward depositors (PSIA) is a unique feature of Islamic banks which will change the nature of risks faced by Islamic banks. First, the 'profit sharing' paid to unrestricted PSIA holders is the outcome of a process of earnings management and accounting manipulation that seeks to shadow the rates or return paid by conventional banks on their retail deposits. These desired outcomes have generally been achieved by combination of conservative investment strategies and the use of reserve

accounts formed out of profits attributable to PSIA holders to smooth profit payouts (so-called profit equalization reserve (PER)) and to cover periodic losses (so-called investment risk reserve (IRR)) (Archer and Karim, 2009, p.303). These practices, especially the reduction of the shareholders' share reflect the existence of displaced commercial risk. PER is used to mitigate displaced commercial risk by reducing the need for reduction of the shareholders' share and 'donation' to PSIA holders (Archer et.al, 2009).

Second, since Islamic banks use PS modes on liability side and depositors want to protect their assets' real value, the withdrawal risk due to lower rate of return is a unique feature of Islamic banking. In an Islamic environment, the real value of deposits will decline not only due to inflation, but also due to zakat dues. A variable rate of return on saving/investment deposits further introduces an additional source that may affect real value (Ahmed, 2002, p.15). In the case of Indonesia and other countries which are implementing dual banking system, deposit withdrawal risk is indeed one of the most important risks to be managed by Islamic banks for at least two reasons. Firstly, Islamic banks operate side by side with the conventional one which requires them to perform well and be profitable for their depositors. This is due to the depositors' expectation toward Islamic banks to pay competitive returns and provide comprehensive banking services. Secondly, in the case of Indonesia, majority of the depositors are individual depositors and are motivated by religious aspect of the bank (Abduh and Omar, 2010). This implies that the possibility of

depositors will run off their banks when those banks are proven to implement non-Shari'ah compliance products and practices is very high.

Similar to credit risk, withdrawal risk is very much related with their customers. The basic difference is in credit risk the banks are facing the financing customers while in withdrawal risk the banks are facing the depositors. Therefore, maintaining good bank-customer relationship through an improvement in service quality is very important for an Islamic bank as an approach to mitigate withdrawal risk. Terrible service quality, particularly to those viewed as important factor by the depositors, most probably leads to massive withdrawal from the depositors' account. Hence, the fourth RQ in this study is:

RQ4: What is the most influencing factor for the depositors to withdraw their funds from an Islamic bank?

Empirical Methods and Findings

This study adopts quantitative methods and is based mainly on primary data collected through a questionnaire which items are adopted from articles such as Parasuraman et al. (1985), Zeithaml and Bitner (1996), Erol and El-Bdour (1989) and Metwala and Almosawi (1998). Although the questionnaire has been distributed to more than 300 individual customers of Islamic banks in Jakarta, Indonesia, there were only 276 usable questionnaires for further analysis. The analysis started by exploring the demography of respondents using simple descriptive techniques of frequency and percentage. Afterward, exploratory factor analysis is carried out to uncover the key dimensions of

Indonesian Islamic banking service quality and followed with finding the most important dimension using simple arithmetic mean. Lastly, the importance and performance analysis (IPA) will be employed to evaluate the level of quality of those services.

Samples

To achieve the objectives of this study, data were collected from Islamic bank's customers in Jakarta. Particularly, it engages 276 respondents, consisting of 180 (65.2%) males and 96 (34.8%) females. Most of the respondents hold undergraduate degree (56.5%), followed by postgraduate degree (37.7%) and high school (5.8%). In addition, 209 (75.72%) respondents are bi-account (Islamic and conventional) holders and 67 (24.82%) respondents are holding only Islamic bank account. Thus, this survey is believed to represent the educated customers with good knowledge in banking, good experience and high frequency of dealing with Islamic banks.

With regards to their job and income levels, most are working in private sectors (43.5%) and in government linked companies (21.4%). In addition, respondents' working area is mostly in the area of education (32.2%) and financial institutions (14.1%) with monthly income levels varying from less than 1 million rupiah (9.1%) to more than 10 million rupiah (15.2%). Most of the respondents have monthly income level between 1 and 7 million rupiah (67.4%). Despite the higher level of education, this shows the fact that Indonesian Islamic banking customers are still dominated by middle and low income people (see table 2).

Variable		Frequency	Percentage (%)
Gender	Male	180	65.2
	Female	96	34.8
Age (years)	18 – 25	75	27.2
	26 – 35	154	55.8
	36 – 45	36	13
	46 – 55	10	3.6
	> 55	1	0.4
Education	High school	16	5.8
	Undergraduate	156	56.5
	Postgraduate	104	37.7
Income level (million rupiah)	< 1	25	9.1
	1 – 2.9	94	34.1
	3 – 6.9	92	33.3
	7 – 10	23	8.3
	> 10	42	15.2
Job type	Government employee	59	21.4
	Private sectors	120	43.5
	Entrepreneur	18	6.5
	Others	79	28.6
Job area	Financial institutions	39	14.1
	Education	89	32.2
	Trades	20	7.2
	Others	128	46.4
Type of account held	Islamic bank only	67	75.7
	Both Islamic and conventional banks	209	24.3

Table 2: Demography of respondents

Factor Analysis

Factor analysis is applied in this study to identify the fundamental dimensions underlying the original 24 service quality attributes in Indonesian Islamic banking using 0.5 cut point of loading value. Factor 1 incorporates attributes pertaining to bank reputation, confidentiality, new products, promptness in giving responses to customers' requirements and technological advancement. Hence, factor 1 can be identified as 'Reliability' dimension. Factor 2 seems to suggest a 'bank-customer relationship' dimension. Attributes loaded to this factor are frontline friendliness, staff clarity in giving explanation, promptness in clarifying problems, social responsibility, accuracy of bank

statement, and staff's compassion in handling complaints from customers. Since attributes of building appearance, convenience parking area, ATM location and accessibility of bank's office are loaded to factor 3, it clearly depicts the 'tangibles' dimension. Factor 4 is reflecting the 'Sharia'h' dimension in Islamic banking products and practices and it contains attributes such as Shari'ah compliance of the products, appropriate attire of female employees and the bank's type whether fully Islamic bank (full-fledged) or Islamic window of a conventional bank. Lastly, attributes of Saturday banking, banking hours, cost of services, and rate of return are loaded to factor 5. Hence, factor 5 is likely to reflect the 'rates and charges' dimension (see Table 3).

Item of services	Factor				
	1	2	3	4	5
Sharia`h Compliance products				.587	
Appropriate attire of female staff				.603	
Saturday banking					.553
Bank's type (Full-fledged Islamic bank– Islamic window)				.658	
ATM Location			.669		
Internet Banking					
Parking			.537		
Building			.634		
Cost of Services					.656
Banking Hours					.560
Routinely offering new products/services	.596				
Frontline friendliness		.634			
Staff's compassion in handling complaints from customers		.735			
Staff clarity in giving explanation		.770			
Promptness in clarifying problems		.707			
Promptness in giving response for what customers need	.526				
Staff understanding in Islamic contract		.747			
Accuracy of bank statement		.664			
Social responsibility		.594			
Confidentiality	.696				
Using new technology	.764				
Bank reputation	.728				
Rate of return					.686
Access to bank location			.512		

Table 3: Item and factor matrix.

One of the contributions of this study is that it incorporates Shari`ah related issues i.e. Shari`ah compliance products and practices, appropriate attire of female bank staff and whether the bank is fully Islamic bank or just a window of a conventional bank. After running the exploratory factor analysis, the items were successfully loaded into one particular factor, factor 4, the Shari`ah dimension.

Factors Leading to Deposit Withdrawals

In order to get the figures displayed in Table 4 we use several steps. First is collecting all the responses using 5-scale likert scale (1 = strongly disagree to 5 = strongly agree) from the

statement: 'I will withdraw my money from my Islamic bank if the performance of the (24) items below is poor'. Likert scale was used because it allows the respondent to choose the response that best represents his opinion towards the statement. Second, we calculate the arithmetic mean from items loaded to each dimension for each individual respondent. Third, after getting the average, we then classify the results using the following category:

- (i) if the average is less than 3, we consider 'I will not withdraw',
- (ii) between 3 and 4 is 'perhaps, I will withdraw', and
- (iii) 4 and above is 'Yes, I will withdraw'.

	Service Dimensions of an Islamic Bank				
	Reliability	Tangibles	Rates & Charges	Bank-Cust. relationship	Shari`ah
No, I will not withdraw	79 (28.6 %)	67 (24.3 %)	113 (40.9 %)	121 (43.8 %)	33 (12.0 %)
Perhaps, I will withdraw	123 (44.6 %)	58 (21.0 %)	87 (31.5 %)	124 (44.9 %)	77 (27.9 %)
Yes, I will withdraw	74 (26.8 %)	151 (54.7 %)	76 (27.5 %)	31 (11.3 %)	166 (60.1 %)
Total Respondents	276	276	276	276	276

Table 4: Depositors' decision when the performance of services is poor.

Table 4 is depicting the behavior of Indonesian depositors towards the poor performance of services in Islamic banking. Those who decide to withdraw their funds if their Islamic bank is found to be violating the 'Shari`ah tenets' in its products and practices and has performed poor in 'tangibles' are 60.1 percent and 54.7 percent respectively. While the number of respondents who decide to withdraw due to poor performance in 'rates and charges', 'reliability', and 'bank-customer relationship' are 27.5 percent, 26.8 percent, and 11.3 percent respectively.

Therefore, Shari`ah compliance in products and practices is very important for depositors of Indonesian Islamic banking. Following the Shari`ah is the 'tangibles' and then 'rates and charges'. These are the major factors leading to deposit withdrawal when they are not being managed appropriately.

Importance and Performance Analysis

Importance and performance analysis (IPA) is used in this paper in order to provide a visual analysis of customers' assessment on Islamic bank's services. Customers' views are plotted onto importance-performance grids which offer banking strategists a straightforward, graphic illustration of service dimension that patrons considered to be salient and well-addressed by current installations of Islamic bank services. The points will fall into one of four quadrants labeled "keep up the good work", "possible

overkill", "low priority", and "concentrate here" (see figure 2). The general understanding of "keep up the good work" is when one point is plotted within the area of high importance and high performance. When one point is viewed less important but too good in performance, it will be plotted in "possible overkill" quadrant, while "low priority" quadrant signifies area with low importance and low performance. Finally, items rated high in importance but low in performance in "concentrate here" quadrant implies that overkill has occurred and therefore, improvement must be done for items plotted here.

To confirm which of the 5 dimensions are important and which are non-important, initially mean importance rating were computed for each dimension. For example, for 'Shari`ah' dimension, we compute the mean importance rating from items: 'Shari`ah compliance products', 'appropriate attire of female staff', and 'bank's type'. After we compute the mean for all dimensions, these mean scores were summed across dimensions and divided by 5 to get the grand mean. The dimensions whose averages exceeded the grand mean were designated as 'high importance' and those which had lower means compared with the grand mean were labelled as 'low importance' dimension. Similar procedures applied to determine the higher and the lower performance.

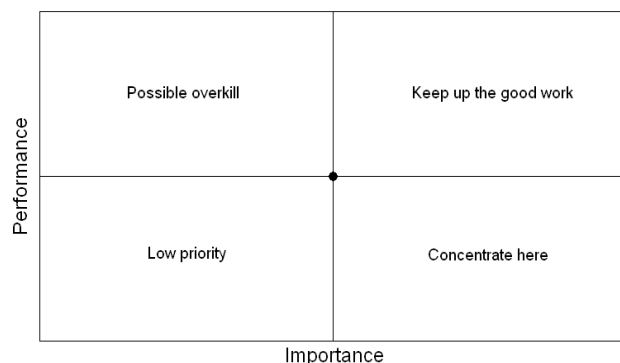


Figure 1: IPA matrix.

In order to have a thorough discussion, this study divides IPA visual analysis into five categories:

- (i) overall respondents,
- (ii) respondents who have account in both Islamic and conventional banking or bi-account,
- (iii) respondents who only have account in Islamic banking,
- (iv) male respondents, and last is
- (v) female respondents.

Firstly, overall respondents' view is that there are some dimensions which are given too much attention by the bank, while these dimensions are not considered important by the bank's patrons. These dimensions are bank-customer relationship, rates and charges, and reliability. On the other hand, banks are neglecting dimensions that are considered very important i.e. tangibles and Shari'ah (see Figure 2).

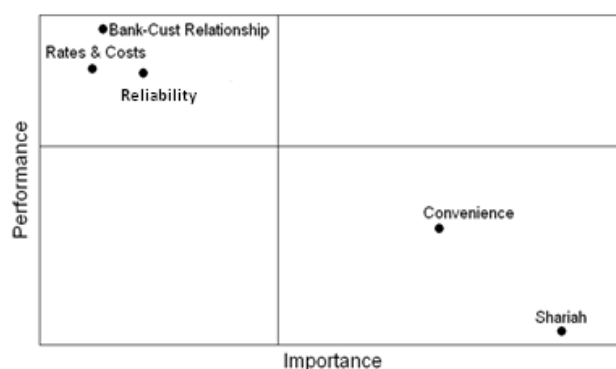


Figure 2: IPA for overall respondents.

These should say to Indonesian Islamic banks that they should strictly adhere to compliance with the Shari'ah particularly with respect to their banking products and management practices and operations. This is due to the fact that Islamic banks' customers in Indonesia are mostly religious customers (Abduh and Omar, 2010) who see the difference between Islamic bank and its conventional counterparts not from its rates, costs of services, or even the bank and customer relationship. If it were these, bank's patrons could easily find, perhaps, competing offers in conventional banks.

Separating respondents based on the type of account possessed such as Islamic bank account only and bi-account holders does not change the position of each dimension in the perception map. Both types of respondents still view that 'tangibles' provided and 'Shari'ah' values performed by Islamic banks are very important while performance is very poor (see figure 3 and figure 4). However, gender gives effect towards the importance and performance map (see figure 5 and figure 6). While male respondents give a similar view with the previous maps, female respondents see that tangibles dimension has already achieved the target. Moreover, they do not view that rate of return and costs of services as something of high important although they also see them in poor performance (see figure 5). Nevertheless, despite the high level of importance of Shari'ah dimension, female customers still perceive that its performance is poor. Table 5 provides mean scores of all dimensions for each classification.

Classification	Axis	Service Quality Dimension					Grand Mean
		Reliability	Tangibles	Rates & Charges	Bank-Cust. relationship	Shari`ah	
Overall	Importance	2.58	2.69	2.57	2.57	2.73	2.63
	Performance	2.53	2.41	2.53	2.56	2.33	2.47
Bi-Account	Importance	2.58	2.65	2.56	2.53	2.69	2.60
	Performance	2.50	2.40	2.54	2.56	2.32	2.46
Islamic only	Importance	2.60	2.81	2.58	2.69	2.85	2.70
	Performance	2.63	2.43	2.51	2.54	2.39	2.50
Male	Importance	2.56	2.68	2.56	2.54	2.70	2.61
	Performance	2.52	2.35	2.56	2.52	2.32	2.45
Female	Importance	2.64	2.70	2.58	2.61	2.80	2.67
	Performance	2.53	2.52	2.47	2.64	2.35	2.5

Table 5: Averages for Importance-Performance Analysis.

Conclusions

This paper is aimed at evaluating service quality of Islamic banking and exploring the withdrawal behavior of Islamic banking depositors in the context of Indonesia. Through an empirical survey method, this paper found five important dimensions in Islamic banking services namely reliability, bank-customer relationship, tangibles, Shari`ah, and rates and charges. Depositors have positioned 'Shari`ah' as the most important dimension which violation done upon it by Islamic bank could lead them to withdrawal action. The other important dimensions are 'tangibles' and 'rates and charges'. Depositors are hoping that their Islamic banks could compete with other Islamic banks or conventional banks regarding these issues.

With regard of depositors' assessment on Indonesian Islamic banking service quality, there is no difference between the view of Islamic banking account holders and the bi-account holders in terms of putting those five

dimensions in IPA quadrants. The 'Shari`ah' and 'tangibles' are the only two dimensions put in the critical quadrant. However, differences are present due to the respondents' gender. While male respondents give similar response to all categories, female respondents perceive that tangibles dimension has achieved the target. Nonetheless, despite the high level of importance viewed by female respondents, Shari`ah dimension is still perceived as poor in performance. Within this kind of situation, withdrawal risk should be the most potential risk to be anticipated.

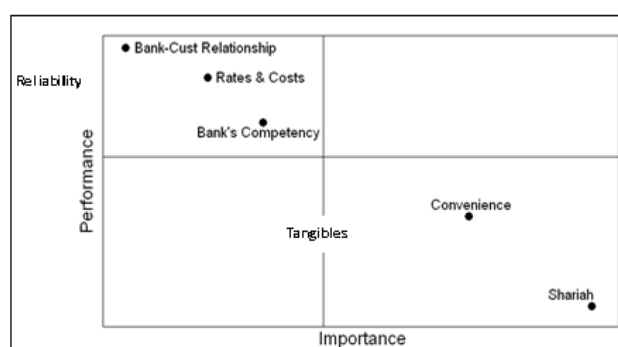


Figure 3: IPA for bi-account respondents

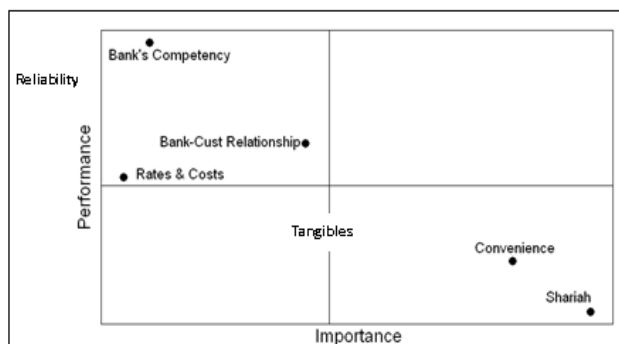


Figure 4: IPA for respondents with Islamic account only.

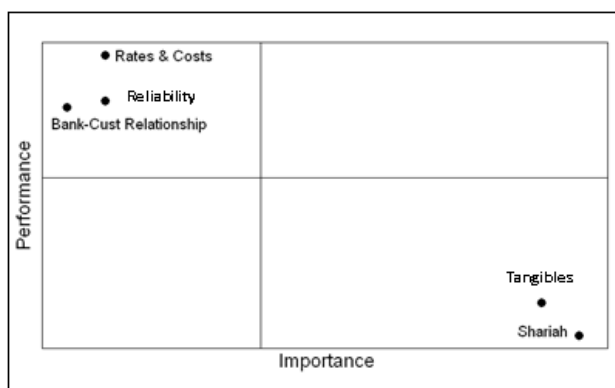


Figure 5: IPA for male respondents.

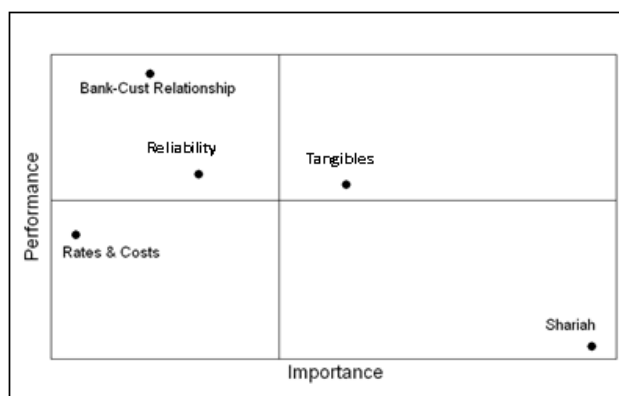


Figure 6: IPA for female respondents.

Policy Recommendations and Future Research Directions

Below are some policy recommendations for Islamic banks and all related parties in order to mitigate the consequence of withdrawal risk and at the same time properly maintain stable and profitable condition for the bank:

- a) To maintain the trust and positive expectation of depositors, Islamic banks should strictly adhere to compliance with

the Shari'ah particularly with respect to their banking products and management practices and operations.

- b) Since Islamic banks have gained much popularity in recent times, Islamic banks should stimulate their innovative marketing skills and formulate competitive marketing strategies via educating broader coverage of people about Shari'ah issues in financial system.
- c) Islamic banks should give much attention to issues perceived minor by them but considered as highly important for the depositors such as the dress code of female staff (as in the negative image that indecent outfit may portray), promptness in giving responses to any matters that arise, effective communication skills, and the provision of, and strict adherence to information about the bank CSR activities.

Future research is still required in this broad area of Islamic banking. Some recommendations offered are to:

- (i) apply the same methods and objectives of this paper for different countries,
- (ii) utilize more sophisticated statistical methods in order to obtain more comprehensive views, and
- (iii) compare the level of customer satisfaction with Islamic banking service quality between the countries applying dual banking system and the fully Islamic banking system.

References

- Abdel Kader and Norizan. (2009), "Measuring perceived service quality in Qatari Islamic banks", *Journal for International Business and Entrepreneurship Development*, Vol. 4 No. 1 – 2, pp. 90 – 106.
- Abduh, Muhamad and Omar, Mohd. Azmi. (2010), "Who patronises Islamic banks in Indonesia?", *Australian Journal of Islamic Law, Management and Finance*, Vol. 1 No. 1, pp. 48 – 63.
- Ahmed, Habib. (2002), *A Microeconomic Model of An Islamic Bank*, Research Paper No. 59, Islamic Research and Training Institute, Islamic Development Bank.
- Ahmed, Habib. (2003), "Withdrawal risk in Islamic banks, market discipline and bank stability", in *proceedings of the International Conference on Islamic Banking: Risk Management, Regulation and Supervision*, Jakarta, Indonesia.
- Al-Tamimi, Hussein A.H. and Al-Amiri, Abdullah. (2003), "Analysing service quality in the UAE Islamic banks", *Journal of Financial Services Marketing*, Vol. 8 No. 2, pp. 119 – 132.
- Bank Muamalat Indonesia. (2002), *Annual Report 2002*, Jakarta: Bank Muamalat Indonesia.
- Berry, L.L., Parasuraman, A. and Zeithaml, V.A. (1985), "Quality counts in services, too", *Business Horizons*, May-June, pp. 44 – 52.
- Erol, C. and El-Bdour, R. (1989), "Attitude, behavior and patronage factors of bank customers towards Islamic banks", *International Journal of Bank Marketing*, Vol. 7 No. 6, pp. 31 – 37.
- Erol, C., Kaynak, E. and El-Bdour, R. (1990), "Conventional and Islamic bank: Patronage behavior of Jordanian customers", *International Journal of Bank Marketing*, Vol. 8 No. 5, pp. 25 – 35.
- Garland, R. (2002), "Non-financial drivers of customer profitability in personal retail banking", *Journal of Targeting, Measurement and Analysis in Marketing*, Vol. 10 No. 3, pp. 233 – 248.
- Golmohammadi, A. and Jahandideh, B. (2010), "Prioritizing service quality dimensions: A neural network approach, *World Academy of Science, Engineering and Technology*, 64, pp. 231 – 236.
- Goode, M. and Moutinho, L. (1996), "The effects of consumer age on overall satisfaction: an application to financial services", *Journal of Professional Services Marketing*, Vol. 13 No. 2, pp. 93 – 112.
- Hill, Nigel and Alexander, Jim. (2006), *The handbook of customer satisfaction and loyalty measurement*, Gower Publishing, Ltd.
- Hossain, Mohammed and Leo, Shirley. (2009), "Customer perception on service quality in retail banking in Middle East: the case of Qatar", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 2 No. 4, pp. 338 – 350.
- Kennington, C., Hill, J. and Rakowska, A. (1996), "Consumer selection criteria for banks in Poland", *International Journal of Bank Marketing*, Vol. 17 No. 5, pp. 12 – 21.

Levesque, T. and McDougall, G.H.G. (1996), "Determinants of customer satisfaction in retail banking", *International Journal of Bank Marketing*, Vol. 14 No. 7, pp. 12 – 20.

Liang, Chiung-Ju and Wang, Wen-Hung. (2004), "Attributes, benefits, customer satisfaction and behavioral loyalty – An integrative research on financial services industry in Taiwan", *Journal of Services Research*, Vol. 4 No. 1, pp. 57 – 91.

Metwala, Saad A. and Almossawi, Mohammed. (1998), "Banking behavior of Islamic bank customers: perspectives and implications", *International Journal of Bank Marketing*, Vol. 16 No. 7, pp. 299 – 313.

Naser, kamal., jamal, Ahmad., and Al-Khatib, Khalid. (1999), "Islamic banking: a study of customer satisfaction and preferences in Jordan", *International Journal of Bank Marketing*, Vol. 17 No. 3, pp. 135 – 150.

Okumuş, Şaduman H. (2005), "Interest-free banking in Turkey: A study of customer satisfaction and bank selection criteria", *Journal of Economic Cooperation*, Vol. 26 No. 4, pp. 51 – 86.

Osman, 'Ismah., Ali, Husniyati., Zainuddin, Anizah., Wan Rashid, Wan Edura., and Jusoff, Kamaruzaman. (2009), "Customer satisfaction in Malaysian Islamic banking", *International Journal of Economics and Finance*, Vol. 1 No. 1, pp. 197 – 202.

Parasuraman, A., Zeithaml, V.A. and Berry, L.L. (1985), "A conceptual model of service quality and implications for future research", *Journal of Marketing*, Vol. 49 No. 4, pp. 41 – 50.

Takemura, Toshihiko and Kozu, Takashi. (2009), "An empirical analysis on individuals deposit

withdrawal behaviors using data collected through a web-based survey", *Eurasian Journal of Business and Economics*, Vol. 2 No. 4, pp. 27 – 41.

Trubik, E. and Smith, M. (2000), "Developing a model of customer defection in the Australian banking industry", *Managerial Auditing Journal*, Vol. 15 No. 5, pp. 1 – 12.

Wisskirchen, C., Vater, D., Wright, T., De Backer, P., and Detrick, C. (2006), "The customer-led bank: converting customers from defectors into fans", *Strategy & Leadership*, Vol. 34 No. 2, pp. 10 – 20.

Yada, K., Washio, T., Ukai, Y., and Nagaoka, H. (2009), "Modeling bank runs in financial crises", *Rev Socionetwork Strat*, Vol. 3, pp. 19 – 31.

Zeithaml, V.A. and Bitner, M.J. (1996), *Services Marketing*, McGraw-Hill, New York, NY.

Notes

[1]

<http://www.thestreet.com/story/10863639/islamic-banks-attract-more-global-clients.html>

(access date: September 18, 2010)

[2]

Most papers are discussing the bank selection criteria instead. Although it is connected to customer satisfaction, the focus of the discussion is not specific to the evaluation on service quality.