

Factors That Influences Customer Loyalty to Sharia Insurance

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Abstract

This study aims to determine: the effect of product quality on customer loyalty; the effect of product quality on customer satisfaction; the effect of customer trust on customer loyalty; the effect of customer trust on customer satisfaction; the effect of customer satisfaction on customer loyalty. The population of this study is all customers of sharia insurance in Bandung, Indonesia, and 165 samples have been selected from it. The data processing method used in this study is Structural Equation Modeling (SEM). The results of the study showed that: product quality is affecting customer loyalty; product quality is affecting customer satisfaction; customer trust is affecting customer loyalty; customer trust is affecting customer satisfaction; customer satisfaction is affecting customer loyalty; customer satisfaction mediates the effect of product quality and customer trust on customer loyalty to Sharia insurance. The study gave the implication that sharia insurance companies can meet customer needs and doing far more than expected by providing services faster than the established standards in the claim process.

Keywords: *Product Quality, Trust, Satisfaction, Loyalty, Insurance, Sharia*

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I. BACKGROUND

There are several factors that influence the development of sharia insurance companies in Indonesia, including: product quality, customer trust, customer satisfaction, and also customer loyalty. Sharia insurance products that emphasize the principles of sharia will be more easily accepted in Indonesia which has the largest Muslim population in the world. The people should be wise and smart in selecting a qualified insurance company. In that regard, improving the quality of insurance product will affect customer trust (Wijaya and Wismontoro, 2017). Customer distrust may arise due to several customer complaints, such as: poor service system; convoluted administration system; interest rates change over time and does not comply with the initial agreement etc.

Those complaints may affect the level of customer trust in insurance companies, so the main priority that must be implemented by the insurance companies is to maintain their service quality, since it become a concrete indicator to create trust and understanding of insurance companies in implementing Good Corporate Governance (GCG). Therefore, it is believed that the key to win the competition is by providing value and satisfaction to customers through delivery of qualified products and services, as well as paying attention to customer's needs and desires (Anggraeni, Kumadji and Sunarti., 2016; Khoironi, Shah and Dongoran., 2018; Wijaya and Wismantoro., 2017; Hoe and Mansori., 2018; Razak, Nirwanto and Triatmanto., 2016). The fulfillment of customer satisfaction will also have an impact on customer loyalty, and as concluded by Khoironi et al. (2018); Mbango and Makhubela (2018) that product quality affects customer loyalty.

One of the factors which is expected to influence the decrease in customer loyalty is the fierce competition, and the emergence of new institution of the same type. This condition requires the companies to struggle to maintain their market share, with the priority of retaining the existing customers. Similar to other sharia companies such as banking industry, sharia insurance companies in Bandung also have a uniqueness, which is one of the very strong factors that influence the satisfaction and loyalty of the sharia insurance customer in Bandung is religiosity (Wahyuni and Fitriani, 2017). In Islam, the insurance system should be based on the concept of help one another in virtue, righteousness and piety, and making all participants as a big family who share all risks mutually.

Based on the background, the purpose of this study is to determine the effect of product quality and customer trust on customer loyalty mediated by customer satisfaction in insurance companies in Bandung, Indonesia.

HYPOTHESIS DEVELOPMENT

The Effect of Product Quality on Sharia Insurance Customer Loyalty

The assessment of good or bad quality of a product is specified from the customer's perspective, not the company. It is very important for producers to understand the market needs in order to be able to offer value propositions to their customers through the quality of the products offered, namely by creating qualified sharia insurance products which can provide a pleasant experience for the customers. Product quality excellence should be sufficient in order to be able to create customer satisfaction and loyalty (Hidayat et al., 2015). The finding of the study is consistent with the study result of Khoironiet al.(2018); Mbango and Makhubela (2018) which concluded that product quality is affecting customer loyalty. Thus, based on the literature, the following hypothesis are therefore formulated:

Ho: Product quality does not have significant effect on customer loyalty

H₁: Product quality has significant effect on customer loyalty

The Effect of Product Quality on Sharia Insurance Customer Satisfaction

Hoe and Mansori (2018) explained, companies must strive to develop products based on the concept of value innovation in order to create values for the customers by improving aspects of product quality that have been identified by customer representatives. Qualified products that can meet customer expectation will increase customer satisfaction with those products (Wijaya and Wismantoro, 2017). It is consistent with the results of previous studies conducted by Anggraeni et al. (2016); Khoironiet al.(2018); Razak et al. (2016) which concluded that product quality is affecting consumer satisfaction. Thus, based on the literature, the following hypothesis are therefore formulated:

Ho: Product quality does not have significant effect on customer satisfaction

H₂: Product quality has significant effect on customer satisfaction

The Effect of Customer Trust on Sharia Insurance Customer Loyalty

Redhika and Mahalli (2014) stated that the most challenging factors related to the low market penetration of sharia bank including lack of promotion and market education, limited products and services, and the people that still unsure whether sharia insurance products comply with Sharia principles. This is a big challenge for the parties involved in sharia bank to convince the market that the products offered are reliable and trustworthy according to Sharia law. It is expected that the best performance of the management of sharia bank will foster the trust of customers and prospective customers, and it is important to attract new customers and gain loyalty. This is consistent with study results of Peng et al. (2019); Hidayat et al. (2015); Kishada and Wahab (2015); Peng and Moghavvemi (2015) which concluded that customer trust is affecting customer loyalty. Thus, based on the literature, the following hypothesis are therefore formulated:

Ho: Customer trust does not have significant effect on customer loyalty.

H₃: Customer trust has significant effect on customer loyalty.

The Effect of Customer Trust on Sharia Insurance Customer Satisfaction

Nugraheni and Fauziah (2019) stated that in expanding market share, insurance companies need to gain the trust of their potential customers. Customer trust in sharia bank will increase the level of customer satisfaction of sharia bank (Hidayat et al., 2015). It can be said, customer satisfaction is a factor that generates trust in companies that offer products and services (Bricci et al., 2015). This is consistent with study results of Hidayat et al. (2015) which concluded that trust is affecting satisfaction. Thus, based on the literature, the following hypothesis are therefore formulated:

Ho: Trust does not have significant effect on customer satisfaction

H₄: Trust has significant effect on customer satisfaction

The Effect of Customer Satisfaction on Sharia Insurance Customer Loyalty

Based on Islamic principles of mutual cooperation and help one another in virtue, righteousness and piety, understanding customer needs is very important. This can help the sharia insurance industry to be proactive in providing customers with reliable products and services. Kotler and Keller (2016) believe, better product quality will maintain a high level of customer satisfaction, which encourages customers to be loyal. This is consistent with the results of previous studies conducted by Hidayat et al. (2015); Hassan, et al. (2013); Kishada and Wahab (2015); Nugraeni and Fauziah (2019) which concluded that satisfaction is affecting customer loyalty. Thus, based on the literature, the following hypothesis are therefore formulated:

Ho: Satisfaction does not have significant effect on customer loyalty

H₅: Satisfaction has significant effect on customer loyalty

II. RESEARCH METHOD

The population of this study is all customers of sharia insurance in Bandung, Indonesia. The variables studied included exogenous variables, namely product quality and consumer trust, endogenous variables, namely customer loyalty, and mediating variables, namely customer satisfaction. This study taking a deductive approach. Data analysis method used in this study is Structural Equation Modeling (SEM). Furthermore, sampling in this study was carried out using the SEM technique, at least 5 times the number of question items contained in the questionnaires (Hair, Anderson, Tatham and Black., 2014).

Measurement

The measurement method used in this study and product quality variables were adopted from Stevenson (2005); trust variables was adopted from Mayer et al. (1995); satisfaction variable was adopted from Crosby et al. (1990); Kim and Cha (2002); whereas the loyalty variable was adopted from Lin and Ding (2006). The measurement scale using the Likert Scale method (Malhotra, 2014). Factor analysis is used in this study to test the validity, namely by examine the value of Kaiser-Meyer-Olkin (KMO) and Measures of Sampling Adequacy (MSA) (Malhotra, 2014). Furthermore, the results of validity test of confirmatory factor analysis showed that all questionnaires are valid (product quality, customer trust, customer satisfaction and customer loyalty) with KMO and MSA values > 0.500 . Likewise, the reliability test of all questionnaire's variable, showed value Cronbach alpha > 0.6 which means reliable (Sekaran, 2011).

III. DISCUSSION

Based on the results of the first hypothesis testing (H_1), it was found out that the analysis supports the hypothesis H_1 stating that product quality has a significant effect on loyalty of sharia insurance customers in Bandung, this is consistent with the results of previous studies conducted by Anggraeni et al. (2016); Khoironiet al. (2018); Mbango and Makhubela (2018) which concluded that product quality affects customer loyalty. The writer found out that product quality has an effect on customer loyalty due to several factors, such as the influence of demographics of respondents, namely age. In the insurance sector, particularly sharia insurance, a sufficient level of maturity and adulthood are required in selecting an insurance company.

Based on the results of the second hypothesis testing (H_2), it was found out that the analysis supports the hypothesis H_2 stating that product quality has a significant effect on customer satisfaction of sharia insurance customers in Bandung. The result is consistent with the findings of study conducted by Anggraeni et al. (2016); Khoironiet al. (2018); Wijaya and Wismantoro (2017); Hoe and Mansori (2018); Razak et al. (2016) which concluded that product quality affects customer satisfaction. According to Islam teachings, consumer products should be useful, consumable and beneficial, having a use value, which results in material, moral, and spiritual improvement for the consumers.

Based on the results of the third hypothesis testing (H_3), it was found out that the analysis supports the hypothesis H_3 stating that customer trust has a significant effect on customer loyalty of sharia insurance customers in Bandung. The results of this study are in line with the study conducted by Hidayat et al. (2015); Kishada and Wahab (2015); Peng et al. (2019); Peng and Moghavvemi (2015) which concluded that trust affects consumer loyalty. The results of this study indicate that respondents felt trust in insurance companies in Bandung.

Based on the results of the fourth hypothesis testing (H_4), it was found out that the analysis supports the hypothesis H_4 stating that customer satisfaction has a significant effect on trust of sharia insurance customers in Bandung. The results of this study are consistent with the results of study conducted by Bricci et al. (2015); Hidayat et al. (2015); Wijaya and Wismantoro (2017); Nugraheni and Fauziah, (2019) which concluded that trust affects consumer satisfaction. Sharia insurance companies in Bandung have been working to be able to provide the best quality of service in order to gain trust in their customer.

Furthermore, based on the results of the fifth hypothesis testing (H_5), it was found out that the analysis supports the hypothesis H_5 stating that customer satisfaction has a significant effect on customer loyalty of sharia insurance customers in Bandung. The results of this study are in line with the results of previous studies conducted by Hidayat et al. (2015); Hassan, et al. (2013); Kishada and Wahab (2015); Nugraeni and Fauziah (2019), which concluded that satisfaction affects customer loyalty. This means that the more satisfied the sharia insurance customers are for the products they produce, the more loyal the customers will be to the sharia insurance product.

IV. CONCLUSIONS, IMPLICATIONS AND SUGGESTIONS

Conclusions

According to the objectives and purposes, the conclusion of this study are as follows: product quality has a significant effect on loyalty of sharia insurance customers in Bandung; product quality has a significant effect on satisfaction of sharia insurance customers in Bandung; customer confidence has a significant effect on loyalty

of sharia insurance customers in Bandung; customer confidence has a significant effect on satisfaction of sharia insurance customers in Bandung; customer satisfaction has a significant effect on loyalty of sharia insurance customers in Bandung; customer satisfaction is able to mediate the effect of product quality and customer trust on customer loyalty to sharia insurance in Bandung.

Managerial Implications

First implication, the need for sharia insurance companies to improve the quality of their products, considering that there are still quite high opportunities in this sector. Second implication, customer satisfaction is determined by product quality and the level of trust, therefore, sharia insurance companies should be able to provide extra service, such as providing special discounts or promotion, both for the new customers and the existing ones.

Theoretical Implications

It is found out that all hypotheses formulated in this study are mutually influence each other. So, the result of this study may provide theoretical implications which are expected to enrich the insight and can be used as a reference for further study. Whereas, for sharia insurance companies, it is expected that the results of this study can be used as basic capital in an effort to increase customer loyalty.

Study Limitations

There are some limitation of this study that need to be taken into consideration for further study, namely: the object of this study is only customers of sharia insurance in Bandung; this study only examines variables of product quality, customer trust, customer satisfaction, and customer loyalty, and there is possibility that the respondents did not fill out the questionnaire according to the actual situation, or only filled out the questionnaire based on the expected ideal conditions.

Suggestions for Further Study

Seeing the limitations of this study, it is recommended for further study to add other variables that can affect loyalty, such as variables in consumer behavior or service quality. Further study is also expected to be carried out on different objects such as conventional insurance companies, as well as companies related to customer loyalty.

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