

Digital Banking, Customer Experience and Islamic Bank Financial Performance in Indonesia

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Keywords: Digital Banking, Customer Experience, Loyalty, Customer Satisfaction, Financial Performance.

Abstract: This research aims to look at the relationship between Convenience, Functional Quality, Digital Banking Service Quality, Brand/ Trust, Employee Customer Engagement, Digital Banking Innovation, Customer Experience, Customer Satisfaction, Customer Loyalty, and Financial Performance of Islamic Banks. Customer experience in digital banking can be determined through the service quality so the uses and risks can be experienced directly. This study used primary data taken directly by using questionnaire with 229 respondents. The analysis technique used was path analysis with Partial Least Square Structural Equation Model (PLS-SEM). The results of this study indicate that Convenience, Brand / Trust, Employee Customer Engagement, and digital banking innovation have an influence on customer experience, but not with Functional Quality and Digital Banking Service Quality. The results of this study can be used as consideration for companies to improve the bank performance in serving customers and bank employees must have a friendly attitude for customers to feel comfortable.

1 INTRODUCTION

In fulfilling customer needs in enhancing the growth of banking and financial banking, the bank seeks to maximize the services through digital banking, which in the modern era can become the main alternative for mobile banking users. In implementing this digital banking, Islamic banks must be able to change the marketing and management model of Islamic banks. The challenge for Islamic banks in developing digital banking is customer reluctance caused by bad experiences. For this reason, the development of service marketing theory in digital banking requires an understanding of customer preferences which can be seen from customer satisfaction and loyalty (Mbama and Ezepue, 2018).

Customers choose the service providers based on importance ratings and after enjoying the service they tend to compare it with what they expect previously (Suhartanto, 2008). If the services they get are far below their expectation, the customer will leave the service providers. Therefore, increasing customer needs will increase the bank's financial performance and will have a positive impact on the bank itself.

Service quality can be interpreted as customer's assessment of the superiority or privilege of a product or service as a whole. Service quality is a com-

prehensive customer evaluation process regarding the perfection of service performance (Assauri, 2015). It includes the sense of security and comfort for the customers. Banks can improve this service by implementing Digital Banking (DB). Digital Banking is a service provided by banks with the development of electronic banking services in order to serve customers easily, quickly, and comfortably according to customer needs (customer experience), so as to facilitate customers to conduct banking activities independently (POJK, 2018).

Based on a survey conducted on various bankers in Indonesia, around 66% of them have developed digital banking as a strategy for banking companies. It proves that digital influences in the banking world have increasingly developed and made digital banking a part of the company's strategy (Indonesia, 2018). However, there is only a small proportion of banks in Indonesia which has implemented digital banking, of 80 banks only two of them actually implement a total digital banking system. The rest still apply only a small part of the program. (Kompas, 2018).

2 LITERATURE REVIEW

2.1 Digital Banking

Rapid technological development leads banks to further improve their services by forming digital banking. It aims so that banks can maximize their services to customers and improve their operational quality. It is expected that banks can develop their own digital banking. Digital banking is designed so that customers can carry out transactions independently, such as: opening an account, obtaining information, doing transactions, closing accounts and conducting other needs of customers (OJK, 2018).

The advantage that banks can take to advance digital banking is to utilize the huge penetration of cell-phones. Up until now, mobile users in this country have reached 95% of the total population of Indonesia, while those who can access banking facilities are only at 20% (Zahiruddin, 2015). Digital banking allows banks to develop services to customers, provide an alternative to give information directly to customers and reduce direct interaction at branch offices. Today customers expect the same level of interaction through digital banking and social media (Dootson et al., 2016). Digital banking is an orientation of service, it makes the theory of service marketing important in its conceptualization (Mbama and Ezepue, 2018).

In line with technological development in the banking sector, it is also important to consider about 24 hours banking services. One of them is the Automated Teller Machine (ATM) service. Customers expect to get information or consult through telephone or e-mail as soon as possible. It proves the role of service quality in the bank so that people feel satisfied with the bank services (Yilmaz et al., 2018).

2.2 Convenience

Convenience arises as a result of individual's perception about happiness in using the services provided. It makes convenience becomes an important factor to consider by the banks before providing digital banking services that meet customers expectation (Paganta, 2015). Convenience can be seen from the extent to which banks can provide simple, easy to use and intuitive access for customers (Larsson and Viitaaja, 2017). Convenience can also be felt directly by the customers, judging by how well the bank provides services in the form of location (Wu, 2011) and parking spaces so as to give comfort and avoid customer dissatisfaction (Culiberg and Rojšek, 2010).

H1: There is a positive relationship between Convenience and customers experience.

2.3 Functional Quality

Functional quality is the process of presenting services by the service providers to customers (Grönroos, 2007). Functional quality is an attitude / behavior that shows intelligence, responsiveness, hospitality, professionalism carried out by bank employees in serving customers (Mulyanti, 2011). It is related to customers' judgment toward the services provided in order to reach customers satisfaction. Functional quality is considered good if it can exceed customer expectations. Functional quality also measures how efficiently banks operate and can be accepted by customers (Keisidou et al., 2013).

H2: There is a positive relationship between functional quality and customer experience.

2.4 Digital Banking Service Quality

Service is not just about serving but also feeling. The feeling felt by the customer will open customers' heart share and it leads to customer loyalty toward the company's products (Zainal et al., 2017). The main services provided through digital banking are online balance checks and fund transfers. These services can provide boost for banks in conducting strategic service marketing (Mbama and Ezepue, 2018). Banks must also be able to guarantee customer satisfaction in order to encourage them to buy other products (Yilmaz et al., 2018).

H3: There is a positive relationship between Digital Banking Service Quality and Customer Experience.

2.5 Brand/Trust

If customers have good expectation toward the brand of a company, they then believe that the products and company are also good. This brand trust can increase customer trust in the company. This arises from the experience felt by the previous customers so that it can affect the sales. Brand credibility is considered reliable if the level of proposition information can be trusted by customers (Keisidou et al., 2013). The tendency of consumers towards a brand as a psychological function is a perspective of customers attitude (Senjaya, 2013).

H4: There is a positive relationship between Brand/ Trust and Customer Experience.

2.6 Employee Customer Engagement

Employee engagement is an employee's involvement in meeting organization's goals in the form of effort, initiative and perseverance (Macey et al., 2011). The existence of employee customer engagement in a company will improve relationships and close physical involvement between employees and customers. It can bring positive attitudes / behavior towards the company from both employees and customers. The thing that must be considered in the service and procurement of complaints is that a good interaction between customers and bank employees the can create good connection between the two (Karatepe and Aga, 2016).

H5: There is a positive relationship between Customer Engagement Employees and Customer Experience.

2.7 Digital Banking Innovation

Banks get benefit from digital banking innovation in improving their performance. This innovation can be used by customers so that it is beneficial for both parties. Although this innovation is important for bank services, customers use the innovation independently. It shows that digital banking innovation must focus on what customers feel and the impact of innovation on customers will be a benefit for the banks (Mbama and Ezepue, 2018). The latest innovations offered by banks in technology must be able to improve the quality of services that are equipped with speed, safety and comfort (Kennedy and Harefa, 2018).

H6: There is a positive relationship between Digital Banking Innovation and Customer Experience.

2.8 Customer Experience

A new model is always needed in digital banking because the customers may not get direct services such as courtesy, friendliness, and personal care. Therefore, there is a measurement of new service quality that moderates customer satisfaction in digital banking (Jun and Palacios, 2016). This study uses several measures of service quality (experience, satisfaction, and loyalty). It allows a significant relationship between digital bank marketing and financial performance. Customer experience is a series of interactions between customers, products and companies, or parts of the organization that give rise to reactions (e.g. rational, emotional, sensoric, physical, and spiritual) (Meyer et al., 2007). H7: There is a relationship between Customer Experience and Customer Satis-

faction. H8: There is a relationship between Customer Experience and Customer Loyalty.

2.9 Customer Loyalty and Financial Performance

Loyalty is the customer's trust in a service provider or service company that allow them to give recommendation to others and give benefit to the company (Haryeni et al., 2017). The existence of loyal customers is needed by the company. Customer loyalty will greatly help the company's growth, especially in the current market competition. Loyal customers are those who will continually repurchase goods and services from the company and will try to recommend them to others (Hastuti and Nasri, 2014). Loyalty refers to the customers behavior of making repeated purchases of goods and services chosen from a company (Griffin and Herres, 2002).

Financial performance is the result obtained by management through cooperation with certain parties to collect funds and use them efficiently. Financial performance is a subjective measure of how well a company uses existing assets to generate revenue (Prakarsa, 2016). Financial performance can be measured by using financial ratios. One of the bank's financial ratios is profitability. The profitability ratio aims to find out the ability of banks to generate profits for a certain period (Indonesia, 2014). The ratios related to earnings are Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM).

H9: There is a positive relationship between Customer Experience and Financial Performance H10: There is a positive relationship between Customer Satisfaction and Financial Performance. H11: There is a positive relationship between Customer Loyalty and Financial Performance.

2.10 Customer Satisfaction

Customer satisfaction is customer's feeling towards the impression or performance given by the company which relates to customer expectations of a product. If the reality is better than the expectations, the service provided is considered very satisfying and vice versa (Febriana, 2016).

Customer satisfaction is the overall customer experience. Positive customer experience depends on customer satisfaction that is felt directly and raises customer loyalty towards the bank (Mbama and Ezepue, 2018) Customer satisfaction is the main thing that must be considered by banking service providers because customer satisfaction is an important aspect

of the company’s image. Customer gives a large contribution to the bank’s income, both directly and indirectly, so as to support the existence of the company (Febriana, 2016).

Researchers who study customer satisfaction and loyalty do not always consider customer experience (Mbama and Ezepeue, 2018). Some previous studies discuss the influence of customer loyalty with customer satisfaction as a moderator and gives positive relationship (Saleem et al., 2016). H12: There is a positive relationship between Customer Satisfaction and Loyalty.

3 METHODS AND EQUIPMENT

This research aims to look at the relationship between Convenience, Functional Quality, Digital Banking Service Quality, Brand / Trust, Employee Customer Engagement, Digital Banking Innovation, Customer Experience, Customer Satisfaction, Customer Loyalty, and Financial Performance of Islamic Banks. Customer experience in digital banking can be determined through the quality of service so the uses and risks can be experienced directly. This study used primary data by distributing questionnaires to sharia bank customers who use digital banking. The population in this study were customers of 13 Islamic Commercial Banks in Indonesia, with 229 respondents. This study used accidental sampling. Accidental Sampling is a technique of sampling by chance (Sugiyono, 2017).

Data analysis technique used in this study was path analysis by applying PLS-SEM (Partial Least Square-Structural Equation Modeling) method. This study was processed by using WarpPLS 6.0 which was run using computer media.

Table 1: Respondent demographic character

Respondent	demographic	character
Gender	Male	66
	Female	163
Age	20-24	185
	25-29	24
	30-34	9
	35-39	6
	>40	5
Educational level	High School	71
	Bachelor/ Diploma	142

	Post graduate	16
Job Civil	Servents	15
	Entrepreneur	22
	Private employees	71
	Student	98
	Others	23
Customers by Bank	BSM	83
	Muamalat	20
	BRI Syariah	28
	Aceh Syariah	4
	Victoria Syariah	0
	Bukopin Syariah	1
	Panin Dubai Syariah	0
	BNI Syariah	86
	BJB Syariah	3
	BCA Syariah	1
	Mega Syariah	0
	BTPN Syariah	3
	MayBank Syariah	0
Length of time being customer	< 1 year	67
	1-2 years	72
	3-4 years	48
	> 4 years	42

4 RESULT

The validity and reliability assessment refers to the value of the loading factor with the calculation results at > 0.5. The rule of thumb used is if the value of the loading factor is greater and equal to 0.5, it is considered sufficient for fulfilling the criteria (Haryono, 2017). The reliability assessment of all items or questions in this study used the Cronbach Alpha coefficient formula. The value of Cronbach Alpha used was 0.6 with the assumption that the questionnaire instrument is considered reliable if the value of Cronbach

Alpha ≥ 0.6 (Imam, 2005) composite reliability value ≥ 0.70 and AVE value > 0.50 (Widarjono, 2015). Table 2 shows that all variable indicators have met the criteria and can be said to be valid and reliable.

Table 2: Validity and Reliability Value

Indicator	Load ing Fac-tors	Comb rach α	Comp osite Re-liabil-ity	AVE
Convenience		0.695	0.831	0.621
Q1	0.783			
Q2	0.811			
Q3	0.770			
Functional Quality		0.818	0.892	0.733
Q1	0.853			
Q2	0.877			
Q3	0.839			
Digital Banking Service Quality		0.902	0.932	0.773
Q1	0.900			
Q2	0.895			
Q3	0.823			
Q4	0.896			
Brand/Trust		0.864	0.907	0.711
Q1	0.803			
Q2	0.829			
Q3	0.881			
Q4	0.857			
Employee Customer Engagement		0.899	0.937	0.831
Q1	0.911			
Q2	0.911			
Q3	0.914			
Digital Banking Innovation		0.884	0.916	0.685
Q1	0.812			
Q2	0.836			
Q3	0.886			
Q4	0.793			

Q5	0.807			
Customer Experience		0.867	0.919	0.790
Q1	0.864			
Q2	0.886			
Q3	0.916			
Customer Satisfaction		0.898	0.925	0.711
Q1	0.886			
Q2	0.846			
Q3	0.790			
Q4	0.848			
Q5	0.843			
Customer Loyalty		0.855	0.912	0.775
Q1	0.874			
Q2	0.918			
Q3	0.848			
Bank Financial Performance		0.707	0.843	0.653
ROA	0.833			
ROE	0.982			
NIM	0.549			

5 DISCUSSION

The validation of the structural model is carried out to see the R-square value (ARS) which is equal to 0.463, with $P < 0.001$. Average block VIF (AVIF) with a value of 2.371, this value is acceptable because it is ≤ 5 , ideally ≤ 3.3 . Average full collinearity VIF (AVIF) with a value of 2.818 is also accepted because it is ≤ 5 , ideally 3.3. Furthermore, the value of Tenenhaus GoF (GoF) is 0.581. Sympson's paradox ratio (SPR) has a value of 1,000 which can be accepted because the value is greater than ≥ 0.7 ideally = 1. The R-square contribution ratio (RSCR), Statistical suppression ratio (SSR) and nonlinear bivariate causality direction ratio (NLBCDR) values is = 1,000 each which is also acceptable.

The final results of conclusions obtained from the results of data processing using WarpPLS are shown below

From the results of testing model above, it can be seen that Convenience, Brand / Trust, Employee Customer Engagement, and digital banking innovation have a positive and significant influence on customer experience with a significance value of 0.05. Meanwhile, the Functional Quality and Digital Bank-

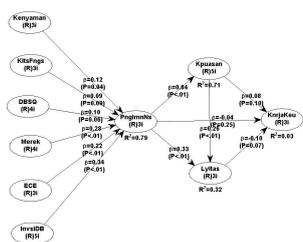


Figure 1: Result of Testing Model

ing Service Quality variables do not have a significant effect on customer experience. Customer experience has a positive and significant influence on Customer Satisfaction and Customer Loyalty with a significance value of ≤ 0.01 . On the other hands, Customer Experience, Customer Satisfaction, and Customer Loyalty variables do not have a significant effect on Islamic Bank Financial Performance, with a significance value of 0.05 0.10 and 0.07 respectively. It shows that the Customer Experience, Customer Satisfaction and Customer Loyalty do not affect the Bank’s Financial Performance.

6 CONCLUSION, LIMITATION AND FUTURE RESEARCH

The results of the entire study show that Convenience, Brand / Trust, Employee Customer Engagement, and digital banking innovation have an influence on customer experience, but not with Functional Quality and Digital Banking Service Quality. It proves that the functional quality and Digital Banking Service Quality cannot provide a separate experience for customers who do transaction in Islamic banks. Even so, banks need to improve the convenience in service. The bank employees must have a friendly attitude for customers to feel comfortable. On the other hands, Customer Experience, Customer Satisfaction, and Customer Loyalty variables have no influence on the Financial Performance of Islamic Banks. However, the bank must still give a good impression to the customers so that the customer remains loyal to the Islamic bank.

This study was only limited to certain time and place, in which it is aimed at customers of Islamic banks. Due to this research, the researcher was only able to collect data from sharia bank customers in several regions in Indonesia such as Medan, Bandung, Jakarta, Semarang, and Kalimantan. Therefore, it is expected that further researchers can conduct a direct

survey to some other regions in Indonesia so that a comparison can be obtained.

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