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Service quality, financial-spiritual benefits, and dual-pathway loyalty: Evidence from Indonesia's largest Islamic bank

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Abstract

Purpose – This study examines how service quality and financial and spiritual benefits influence customer satisfaction and loyalty in Indonesian Islamic banking, with satisfaction acting as a mediating variable.

Methodology – Data were collected from 300 customers of Bank Syariah Indonesia (BSI) in Java using a structured questionnaire. The relationships among variables were analyzed using partial least squares structural equation modeling (PLS-SEM).

Findings – The results show that service quality, financial benefits, and spiritual benefits significantly enhance customer satisfaction. Service quality and financial benefits have direct effects on loyalty, whereas spiritual benefits primarily influence loyalty indirectly through satisfaction. Mediation tests revealed that satisfaction serves as both a complementary and an indirect mediator, depending on its antecedents.

Implications – The findings highlight the importance of integrating functional and spiritual value propositions into loyalty-building strategies for Islamic banks. Enhancing service quality, offering competitive financial advantages, and ensuring consistent adherence to Islamic principles are essential to strengthening long-term customer relationships.

Originality – This study extends the service quality–satisfaction–loyalty framework by incorporating financial and spiritual benefit dimensions, offering new empirical evidence on how Islamic values complement conventional satisfaction models within the emerging Islamic banking context of Indonesia.

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Introduction

Indonesia, with the world's largest Muslim population, 87.08% of its citizens or approximately 245.97 million people (Setyabudi, 2024), presents a compelling paradox for Islamic banking. Globally, Islamic banking institutions across Asia, Africa, and the Middle East continue to face similar challenges in converting demographic potential into sustainable customer loyalty, despite rapid industry growth and increasing competition (Albaity & Rahman, 2021; Amegbe & Osakwe, 2018; Hatem Falih et al., 2025; Moosa & Kashiramka, 2023; Tegambwage & Kasoga, 2023). Despite this substantial demographic potential, the sector's development has remained markedly

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constrained. As of December 2024, Islamic banks accounted for only 7.72% of the national banking market share, overshadowed by conventional banks' 92.28% dominance (Otoritas Jasa Keuangan, 2025). Structural disparities further highlight this imbalance: Islamic banks managed IDR 980.3 trillion in assets through 14 banks and 2,003 branches, compared to conventional banks' IDR 12,264.3 trillion in assets across 105 banks and 23,899 branches (Otoritas Jasa Keuangan, 2025). This significant gap underscores persistent challenges in market penetration and institutional competitiveness within Indonesia's dual banking system, suggesting that religious affiliation alone does not automatically translate into market share in Islamic financial services.

Amid these challenges, PT Bank Syariah Indonesia Tbk (BSI) emerged as a transformative force in Indonesia's Islamic banking landscape. Formed through the landmark 2021 merger of three state-owned Islamic banks, Bank Syariah Mandiri, BNI Syariah, and BRI Syariah, BSI has rapidly become an industry flagship. By the end of 2024, BSI reported total assets of IDR 408.61 trillion, up 15.55% year-on-year, and net profit of IDR 7.01 trillion, up 22.83% from 2023 (Bank Syariah Indonesia, 2025). However, this growth has not been without the significant service-related challenges. In mid-2023, BSI experienced a LockBit ransomware cyberattack that disrupted mobile banking, ATM, and branch services nationwide, preventing customers from conducting essential transactions, such as fund transfers, payments, and cash withdrawals. Such service disruptions represent tangible operational failures that can directly undermine customer satisfaction, perceived service reliability, and trust, which are key antecedents of customer loyalty to banking services. Paradoxically, despite these service disruptions, BSI's customer base increased from 19.09 million to 19.22 million customers during the crisis period (Bank Syariah Indonesia, 2025), raising important empirical questions regarding the mechanisms that sustain customer loyalty in Islamic banking beyond service performance alone.

Customer loyalty is widely recognized as a central driver of banking sustainability and long-term profitability (Kim et al., 2024). Extant evidence from the global banking industry shows that customer loyalty is shaped by a combination of functional factors (e.g., service quality and digital performance), relational factors (e.g., trust), and evaluative mechanisms (e.g., satisfaction) across diverse institutional and market settings (Kim et al., 2024; Rashid et al., 2020; van Deventer & Habtemichael Redda, 2023). Kotler (2016) conceptualizes loyalty as a deeply held commitment to repurchase or continue using a service, a commitment that has substantial economic implications. Even a 5% decline in customer retention may result in profit losses ranging from 25% to 100% (Wahyoedi, 2019).

In the context of Islamic banking, prior studies consistently identify service quality, financial benefits, spiritual benefits, and customer satisfaction as key antecedents of loyalty (Hafasnuddin & Majid, 2022; Moosa & Kashiramka, 2023; Yusfiarto et al., 2022). However, existing findings reveal more than mere empirical inconsistencies; they point to a substantive knowledge gap regarding how and under what conditions these factors jointly shape customer loyalty. Specifically, the literature remains fragmented on whether service quality and spiritual benefits primarily influence loyalty indirectly through customer satisfaction (Setyadi et al., 2023; Wijaya et al., 2023), whether financial benefits generate loyalty through direct utilitarian mechanisms, and how these relationships operate within complex institutional environments (Albaity & Rahman, 2021; Hafasnuddin & Majid, 2022). Evidence is particularly limited in post-merger and post-crisis contexts, in which organizational restructuring and service disruptions may fundamentally alter customer expectations and loyalty formation processes. This unresolved theoretical ambiguity underscores the need for an integrated framework that simultaneously examines the economic, service-based, and spiritual dimensions of loyalty in contemporary Islamic banking institutions.

Moreover, most previous studies examine these determinants in isolation, overlook organizational disruption contexts, and rarely integrate economic and spiritual values within a single explanatory framework. Empirical evidence from Java, Indonesia's most populous and economically dynamic region, remains particularly limited, despite its central role in Islamic banking adoption. As a result, the loyalty formation process in large hybrid public Islamic banks remains theoretically underdeveloped and contextually underexplored.

To address these gaps, this study proposes and tests an integrated loyalty framework among BSI customers in Java. Specifically, it examines the direct effects of service quality, financial benefits, and spiritual benefits on customer satisfaction and loyalty as well as the mediating role of customer satisfaction in these relationships within post-merger and post-crisis conditions. By doing so, this research advances the Islamic marketing and banking literature by offering a more coherent and context-sensitive explanation of loyalty mechanisms that transcend purely empirical inconsistencies.

Literature Review

Islamic banking in Indonesia

Islamic banking in Indonesia represents a dynamic intersection of religious principles and financial innovation. Globally, Islamic banking has evolved into a significant segment of the financial system, operating across multiple countries and demonstrating resilience, ethical orientation, and distinct value propositions compared with conventional banking (Farah et al., 2025; Jan et al., 2021; Moosa & Kashiramka, 2023). The sector's formal legal foundation was laid in 1991 with the establishment of Bank Muamalat, and was further institutionalized through Law no. 21 of 2008 concerning Sharia banking (Undang-Undang Republik Indonesia Nomor 21 Tahun 2008 tentang Perbankan Syariah, 2008). Under this law, Islamic banks are categorized into two types: Islamic Commercial Banks *(Bank Umum Syariah/BUS)* and Islamic Rural Banks (Bank Pembiayaan Rakyat Syariah, BPRS). Governance, supervision, and regulation of these institutions are now under the supervision of the Financial Services Authority (Otoritas Jasa Keuangan, OJK), established under Law No. 21 of 2011 (Undang-Undang Nomor 21 Tahun 2011 tentang Otoritas Jasa Keuangan, 2011), which currently supervises the BUS, BPRS, and Sharia Business Units (UUS). These institutions uniquely integrate twin functions–tamwil (commercial activities as investment managers and financial service providers) and maal (social functions through zakat, infaq, and sadaqah management)–to promote comprehensive community welfare (Ascarya & Yumanita, 2005).

According to the Law of the Republic of Indonesia Number 21 of 2008 concerning Sharia banking, the fundamental distinction from conventional banking lies in Sharia compliance, namely, the prohibition of *riba* (interest), the application of profit-and-loss sharing mechanisms *(mudharabah and musyarakah)*, exclusive investment in halal sectors, and supervision by the Sharia supervisory board (DPS) (Undang-Undang Republik Indonesia Nomor 21 Tahun 2008 tentang Perbankan Syariah, 2008). The industry has since expanded to include 14 full-fledged Islamic banks and 20 Islamic banking windows (Yunanda, 2023). Within this landscape, PT Bank Syariah Indonesia Tbk (BSI), established in 2021 through the merger of three state-owned Islamic banks, has emerged as the market leader, managing assets of IDR 408.61 trillion in 2024 and accounting for 41.68% of total Islamic banking assets, 43.27% of total financing, and 43.45% of third-party funds nationwide (Bank Syariah Indonesia, 2024). This consolidation marked a watershed moment in Indonesia's Islamic banking industry, strengthening its institutional capacity and competitive position.

Expectancy disconfirmation theory

In Islamic banking, customer satisfaction is shaped by the alignment between service expectations and actual service performance, as conceptualized in expectancy disconfirmation theory, particularly during periods of service disruption and institutional transformation (Oliver, 1980). Customers of Islamic banks develop expectations not only regarding functional service quality, but also concerning ethical conduct, Sharia compliance, and spiritual value fulfillment (Dandis & Wright, 2020; Hafasnuddin & Majid, 2022; Othman & Owen, 2001). When actual service experiences—such as system reliability, responsiveness, or accessibility—fall short of these expectations, dissatisfaction may arise, potentially affecting long-term loyalty (Barre et al., 2023; Parasuraman et al., 1985). Given this expectation–performance evaluation process, this study adopts Expectancy Disconfirmation Theory (EDT) (Oliver, 1980) as its primary theoretical lens. The EDT posits that customer satisfaction results from a comparison between pre-service expectations and post-service performance perceptions, leading to negative, positive, or neutral disconfirmation (Oliver, 2010). In Islamic banking contexts, EDT becomes more complex as customers simultaneously evaluate conventional service attributes and religious dimensions, including Sharia compliance and spiritual fulfillment (Rahman, 2016). Thus, EDT provides a suitable framework for explaining how service performance, financial benefits, and spiritual benefits shape customer satisfaction and subsequent loyalty in Bank Syariah, Indonesia.

Hypotheses

Service quality and customer satisfaction

In the context of Islamic banking, service quality extends the traditional SERVQUAL dimensions (reliability, responsiveness, assurance, empathy, and tangibles) to encompass adherence to Islamic principles (Othman & Owen, 2001). According to the EDT, when customers perceive service performance to meet or exceed their expectations, both functional and religious satisfaction occurs. Previous research has consistently shown that superior service quality positively influences satisfaction in Islamic banking (Abror et al., 2020; Othman & Owen, 2001; Yusfiarto et al., 2022). Therefore:
H_1: Service quality positively influences customer satisfaction

Financial benefits and customer satisfaction

In expectancy disconfirmation theory, financial benefits are central to customers who prioritize economic utility. When outcomes such as competitive profit-sharing, lower transaction costs, and promotions meet or exceed expectations, satisfaction increases; conversely, unmet expectations lead to dissatisfaction (Hafasnuddin & Majid, 2022). From a utilitarian perspective, these tangible advantages represent key drivers of satisfaction, as supported by previous studies (Fusva et al., 2020).
H_2: Financial benefits have a positive and significant effect on customer satisfaction

Spiritual benefits and customer satisfaction

Grounded in EDT, spiritual rational customers (SRC) derive satisfaction not only from financial outcomes but also from the assurance that banking practices comply with Islamic principles (Oliver, 1980; Othman & Owen, 2001). Compliance with Sharia—such as the avoidance of riba, investment in halal sectors, and promotion of fairness—fulfills spiritual expectations and provides a sense of eternal reward *(ajr al-akhira)* (Ahmed et al., 2021; Wajdi Dusuki & Irwani Abdullah, 2007). Empirical studies confirm that spiritual benefits a significant positive influence on satisfaction (Hafasnuddin & Majid, 2022; Rahman, 2016). Based on the above explanation, the third hypothesis of this study is:
H_3: Spiritual benefits have a positive and significant effect on customer satisfaction

Service quality and customer loyalty

Customer loyalty reflects a long-term relational commitment manifested through repeated patronage and positive advocacy. High-quality services build trust and strengthen emotional bonds, which are central to sustaining loyalty (Setyadi et al., 2023; Suhartanto et al., 2020). In Islamic banking, where ethical compliance is fundamental, the perceived quality of services becomes even more critical in fostering and maintaining customer loyalty. Based on this reasoning, the fourth hypothesis is as follows.
H_4: Service quality has a positive and significant effect on customer loyalty.

Financial benefits and customer loyalty

Financial benefits represent tangible economic advantages, including competitive profit-sharing returns, reduced transaction costs, and financial promotions, which drive loyalty through rational economic considerations. Customers perceiving sustained financial value demonstrate higher retention rates independent of satisfaction levels, as utilitarian calculus outweighs affective

evaluations in decision-making (Fusva et al., 2020; Hafasnuddin & Majid, 2022). This economic rationality is particularly relevant in Islamic banking, where customers prioritize both religious compliance and financial practicality. Thus:
H_5: Financial benefits have a positive and significant effect on customer loyalty.

Spiritual benefits and customer loyalty

Spiritual benefits cultivate loyalty through religious commitment and moral conviction, particularly through the avoidance of religiously prohibited practices such as interest *(riba)* and adherence to Islamic values in all transactions (Ahmed et al., 2021; Hafasnuddin & Majid, 2022; Wajdi Dusuki & Irwani Abdullah, 2007). Customers who perceive spiritual fulfillment exhibit stronger behavioral loyalty based on ideological alignment with the bank's Sharia principles (Hafasnuddin & Majid, 2022; Rahman, 2016). For Islamic banks, ensuring that services consistently deliver these spiritual benefits - including riba-free operations, halal investment practices, and ethical treatment–is crucial for maintaining long-term loyalty. Consequently:
H_6: Spiritual benefits have a positive and significant effect on customer loyalty.

Customer satisfaction and customer loyalty

Customer satisfaction, conceptualized through expectancy disconfirmation theory (Oliver, 1980), represents a critical antecedent of loyalty across service industries. In Islamic banking, satisfaction derived from both functional service performance and spiritual fulfillment translates into strengthened behavioral loyalty, manifested through increased transactions, sustained patronage, and positive advocacy (Barre et al., 2023; Fianto et al., 2020; Oliver, 2010). Empirical evidence across multiple Islamic banking contexts confirms this satisfaction-loyalty linkage (Albaity & Rahman, 2021; Hafasnuddin & Majid, 2022; Setyadi et al., 2023), highlighting the importance of exceeding customer expectations through superior service delivery and religious value alignment. Consequently:
H_7: Customer satisfaction has a significant positive effect on customer loyalty.

Mediating role of customer satisfaction

Service quality, customer satisfaction, and customer loyalty

Service quality indirectly influences loyalty through satisfaction, as perceived performance exceeding expectations generates an affective commitment that enhances retention (Dandis et al., 2021; Suhartanto et al., 2020). In Islamic banking contexts, this mediation pathway is particularly relevant, given the dual expectations of functional service excellence and religious value alignment. Empirical evidence confirms the mediating role of satisfaction in this relationship across diverse Islamic banking settings (Dandis & Wright, 2020; Yusfiarto et al., 2022), though often as partial rather than full mediation due to the direct loyalty effects of service quality. Thus:
H_8: Customer satisfaction mediates the relationship between service quality and customer

Financial benefits, customer satisfaction, and customer loyalty

Financial benefits may indirectly influence loyalty through satisfaction when economic utility positively disconfirms customer expectations (Fusva et al., 2020; Hafasnuddin & Majid, 2022). This mediation pathway is particularly relevant for market segments that prioritize utilitarian considerations over religious values, where financial performance exceeding expectations generates satisfaction, which enhances retention (Sirdeshmukh et al., 2002). However, empirical evidence suggests that this mediation may be context-dependent and potentially nonsignificant when financial benefits directly drive loyalty through rational calculus. Thus:
H_9: Customer satisfaction mediates the relationship between financial benefits and customer loyalty.

Spiritual benefits, customer satisfaction, and customer loyalty

Spiritual benefits enhance loyalty through satisfaction when religious alignment produces transcendent fulfillment (*'ajr al-akhirah*), which positively disconfirms expectations (Hafasnuddin

& Majid, 2022; Rahman, 2016). This mediation pathway is particularly strong for religiously motivated customers, who derive deep satisfaction from Sharia-compliant banking practices, including riba-free transactions and ethical investments. The emotional bond forged through spiritual benefits can sustain loyalty despite service dissatisfaction, demonstrating the non-compensatory nature of spiritually driven loyalty. Thus:

H_{10}: Customer satisfaction mediates the relationship between spiritual benefits and customer loyalty.

Based on the hypothesis, the relationships among the variables are illustrated in the research model presented in Figure 1.

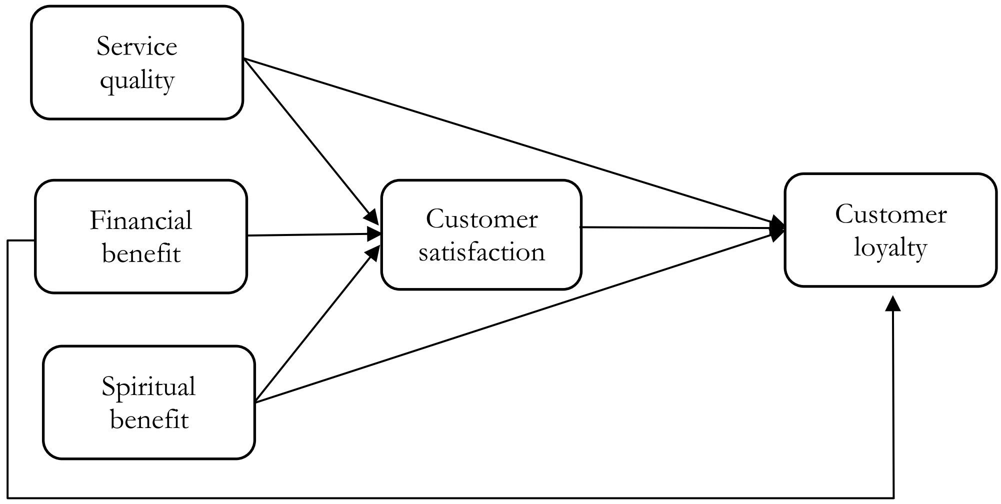

Figure 1. Research model
Source: Adapted and modified from Hafasnuddin & Majid (2022), Abror et al. (2020) and Setyadi et al. (2023).

Research Methods

Research design

This study adopted a quantitative, cross-sectional research design to guide data collection, measurement, and statistical analysis to address the research objectives (Sekaran & Bougie, 2016). This study focuses on BSI. Data was collected using a structured online questionnaire administered via Google Forms to BSI customers across Java. The unit of analysis was individual BSI customers domiciled on Java. Data were gathered at a single point in time to capture current perceptions and behaviors related to the study variables.

Population and sampling

This study's population comprised all Bank Syariah Indonesia (BSI) customers domiciled in Indonesia. The study sample consisted of BSI customers aged 17–60 who resided on Java. Respondents were selected using non-probability purposive sampling based on predefined inclusion criteria: (1) active BSI customers; (2) aged between 17 and 60 years; and (3) residence in Java (covering DKI Jakarta, West Java, Central Java, Yogyakarta, East Java, and Banten), regions identified as having the bulk of BSI users.

The minimum sample size was determined following Hair et al. (2022), who recommended a rule of thumb for at least ten respondents per observed indicator. With 15 observed indicators in the measurement model, the minimum required sample size was 150 respondents. To improve the statistical power and robustness of the analyses (and to allow for potentially incomplete responses), data were collected from 300 respondents. This sample size also falls within the guidance offered by Sekaran and Bougie (2016) for practical sample sizes in behavioral research (30–500), and is adequate for multivariate techniques such as PLS-SEM.

Measurement instruments and data analysis

All constructs in this study were operationalized using measurement items adapted from established scales in prior literature and modified contextually to fit Indonesia's Islamic banking setting. Table 1 presents the complete measurement instrument, detailing construct operationalization, item formulations, and source references.

Customer satisfaction was measured using two reflective indicators adapted from Abror et al. (2020) that capture overall satisfaction and expectation confirmation. While Expectancy Disconfirmation Theory conceptualizes satisfaction as a multidimensional construct involving expectations, perceived performance, disconfirmation, and affective evaluation (Oliver, 1980, 2010), prior empirical studies on Islamic banking commonly operationalize satisfaction as a global evaluative judgment, particularly when it functions as a mediating variable (Abror et al., 2020; Hafasnuddin & Majid, 2022). This approach is consistent with PLS-SEM recommendations, which emphasize predictive validity and model parsimony over exhaustive measurement when constructs exhibit strong theoretical coherence and reliability. In the present study, both satisfaction indicators demonstrated satisfactory reliability and convergent validity, supporting their adequacy in capturing customers' post-consumption evaluative responses in the BSI context.

Table 1. Measurement instrument and sources

Variable	Items	Source
Service quality	BSI operates in full compliance with Islamic principles Physical facilities are visually appealing Employees maintain professional appearance Excellent service provided from first visit Employees show willingness to help Prompt response to customer requests Transaction security guarantees BSI employees' behavior fosters my trust in the bank.	Dandis and Wright (2020)
Financial benefits	Profit-sharing scheme is advantageous Reasonable and transparent fee structure	Hafasnuddin and Majid (2022)
Spiritual benefits	spiritual rewards *(ajr)* from riba-free banking Gain religious merit through Islamic compliance Receive spiritual value from Sharia-aligned staff behavior	Hafasnuddin and Majid, (2022)
Customer satisfaction	Overall satisfaction with BSI services Service performance meets expectations	Abror et al. (2020)
loyalty	Preference for BSI over other Islamic banks Intention to maintain long-term relationship	Suhartanto et al. (2020)

Source: Authors'ownwork

Data analysis methodology

This study employed Partial Least Squares Structural Equation Modeling (PLS-SEM) using SmartPLS 4.0 to evaluate the research model. PLS-SEM was deemed more appropriate than Covariance-Based SEM (CB-SEM), given the study's predictive orientation, relatively modest sample size, and presence of multiple mediating effects (Hair et al., 2022).

First, the measurement model was examined for reliability and validity. Internal consistency was demonstrated through Cronbach's alpha, rho_A, and Composite Reliability (CR), all of which exceeded the recommended threshold of 0.70. Convergent validity was established by outer loadings above 0.70 and AVE values greater than 0.50, while discriminant validity was supported by the Fornell–Larcker criterion and cross loadings. Multicollinearity was not a concern, as indicated by the VIF values below 5.

Subsequently, the structural model was tested using bootstrapping with 10,000 resamples to assess the significance of hypothesized relationships. A mediation analysis was performed using the same resampling procedure, which is preferred over the Sobel test because of its stronger statistical power and fewer distributional assumptions. Mediation was considered present when the indirect effect was significant ($p < 0.05$) and the 95% bias-corrected confidence interval excluded zero. Following Hair et al. (2022) and Zhao et al. (2010), mediation outcomes were classified as complementary, competitive, indirect only, direct only, or no effect. All items were measured using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The instrument underwent rigorous translation and back-translation procedures between English and Indonesian to ensure conceptual equivalence, followed by pilot testing with 30 respondents to assess its comprehensibility and contextual relevance.

Results and Discussion

Respondent demographics

Table 2 presents the demographic characteristics of the respondents, including sex, age, education level, domicile, and occupation. The sample consisted of 300 respondents, the majority of whom were female (79%), while 21% were male. Most participants were 21–30 years old (79%), followed by 17–20 years old (17%). Regarding educational background, the majority had completed senior high school or equivalent education (63%), followed by bachelor's degree holders (34%). In terms of occupation, most respondents were students (77%) followed by private employees (12.3%). Geographically, the respondents were primarily located in Yogyakarta (35%), West Java (21%), and Central Java (17%), with the remainder distributed across East Java, Jakarta, and Banten.

Table 2. Respondent profile

Criteria		Frequeny	Percentage (%)
Gender	Male	64	21.0
	Female	236	79.0
Age	17–20 years	52	17.3
	21–30 years	237	79.0
	31–40 years	9	3.0
	41–50 years	2	0.7
Education level	High school/equivalent	189	63.0
	Diploma (D3)	7	2.3
	Bachelor's degree (S1)	102	34.0
	Master's degree (S2)	2	0.7
Domicile	West Java	62	20.7
	Central Java	51	17.0
	Yogyakarta	106	35.3
	East Java	32	10.7
	Banten	19	6.3
	Jakarta	30	10.0
	Others	0	0.0
Occupation	Job seeker	7	2.3
	Student	231	77.0
	Freelancer	9	3.0
	Civil servant (PNS)	5	1.7
	State-owned employee	4	1.3
	Private employee	37	12.3
	Entrepreneur	6	2.0
	Housewife	1	0.4

Source: Primary data

Measurement model

The reliability and validity of the measurement model, including convergent validity, were also evaluated. Convergent validity was assessed based on the indicator's outer loadings and Average Variance Extracted (AVE). Following Hair et al. (2022), outer loadings above 0.70 and AVE values exceeding 0.50 indicate adequate convergent validity. As shown in Table 3, all indicator loadings ranged from 0.772 to 0.913, and all constructs exhibited AVE values between 0.638 and 0.816, confirming satisfactory convergent validity.

Construct reliability was examined using Cronbach's alpha, rho_A, and Composite Reliability (CR). In line with Hair et al. (2022), all reliability coefficients exceeded the recommended threshold of 0.70. Specifically, Cronbach's alpha values ranged from 0.740 to 0.886, while CR values ranged from 0.884 to 0.918, indicating strong internal consistency across all the constructs.

Table 3. Outer loadings, AVE, and reliability

Construct	Item	FL	AVE	CA	rho_A	CR
Service quality (SQ)	SQ1	0.789	0.638	0.886	0.888	0.913
	SQ2	0.825				
	SQ3	0.806				
	SQ4	0.818				
	SQ5	0.780				
	SQ6	0.772				
Financial benefit (FB)	FB1	0.913	0.816	0.775	0.780	0.899
	FB2	0.894				
Spiritual benefit (SB)	SB1	0.845	0.718	0.803	0.803	0.884
	SB2	0.874				
	SB3	0.822				
Customer satisfaction (CS)	CS1	0.882	0.794	0.740	0.743	0.885
	CS2	0.899				
Customer loyalty (CL)	CL1	0.881	0.788	0.886	0.868	0.918
	CL2	0.889				
	CL3	0.894				

Note: FL: Factor loading; AVE: Average variance extracted; CA: Cronbach's alpha; CR: Composite reliability.
Source: Authors' data analysis using PLS-SEM

Discriminant validity was assessed using both the Fornell–Larcker criterion and heterotrait–monotrait ratio (HTMT). The Fornell–Larcker criterion requires that the square root of each construct's AVE (diagonal elements) be greater than its correlations with other constructs. As presented in Table 4, this condition was satisfied, supporting discriminant validity.

Table 4. Fornell–Larcker criterion

	SQ	FB	SB	CS	CL
Service quality	0.798				
Financial benefit	0.609	0.903			
Spiritual benefit	0.556	0.567	0.847		
Customer satisfaction	0.727	0.595	0.561	0.891	
Customer loyalty	0.556	0.544	0.504	0.550	0.888

Source: Authors' data analysis using PLS-SEM

Table 5. Heterotrait–Monotrait ratio (HTMT)

	SQ	FB	SB	CS	CL
Service quality					
Financial benefit	0.734				
Spiritual benefit	0.659	0.719			
Customer satisfaction	0.895	0.785	0.730		
Customer loyalty	0.633	0.659	0.603	0.685	

Source: Authors' data analysis using PLS-SEM

The HTMT ratios were also examined, with values below the recommended cut-off of 0.90 (Dijkstra & Henseler, 2015). As shown in Table 5, all HTMT values fell within acceptable limits, ranging from 0.603 to 0.895, further confirming the discriminant validity.

Structural model

The variance inflation factor (VIF) was examined to assess potential multicollinearity among predictor constructs. Although the constructs in this study are modeled reflectively, VIF remains an essential diagnostic tool to ensure that multicollinearity does not bias regression estimates in the structural model (Hair et al., 2022). As shown in Table 6, all VIF values ranged from 1.647 to 2.432, well below the conservative threshold of three, indicating that multicollinearity was not a concern.

Table 6. Variance inflation factor (VIF)

Pathway	VIF
Service quality → Customer satisfaction	1.774
Service quality → Customer loyalty	2.432
Financial benefits → Customer satisfaction	1.807
Financial benefits → Customer loyalty	1.885
Spiritual benefits → Customer satisfaction	1.647
Spiritual benefits → Customer loyalty	1.713
Customer satisfaction → Customer loyalty	2.395

Source: Authors' data analysis using PLS-SEM

The model fit was further assessed using the standardized root mean square residual (SRMR) and normed fit index (NFI). An SRMR value below 0.08 indicates a good fit (Hair et al., 2022). The SRMR value for the estimated model was 0.053, confirming good model fit. The NFI values for the saturated and estimated models were 0.825 and 0.832, respectively, suggesting a satisfactory fit.

Hypothesis testing results

We tested the structural model hypotheses using t-statistics and p-values obtained through bootstrapping (10,000 resamples). A path is considered statistically significant if the t-value exceeds 1.65 (for a one-tailed test at the 5% significance level, and the p-value is below 0.05) (Hair et al., 2022).

Table 7 presents the results of the direct effects. The findings indicate that service quality significantly and positively affects customer satisfaction ($\beta = 0.524$, $t = 8.537$, $p = 0.000$), supporting H1. Financial benefits ($\beta = 0.181$, $t = 2.867$, $p = 0.002$) and spiritual benefits ($\beta = 0.167$, $t = 2.848$, $p = 0.002$) also significantly positively affected customer satisfaction, supporting H2 and H3, respectively.

Regarding customer loyalty, all three antecedents showed significant direct effects: service quality ($\beta = 0.196$, $t = 2.061$, $p = 0.020$), financial benefits ($\beta = 0.222$, $t = 3.647$, $p = 0.000$), and Spiritual Benefits ($\beta = 0.166$, $t = 2.066$, $p = 0.019$), confirming H4, H5, and H6. Additionally, customer satisfaction significantly influenced customer loyalty ($\beta = 0.182$, $t = 2.084$, $p = 0.019$), thus supporting H7.

Table 7. Results of direct effect hypothesis testing

Hypothesis	Path coefficients	T Statistics (>1,65)	P -Values (<0,05)	Conclusion
Service quality → Customer satisfaction	0.524	8.537	0.000	Supported
Financial benefits → Customer satisfaction	0.181	2.867	0.002	Supported
Spiritual benefits → Customer satisfaction	0.167	2.848	0.002	Supported
Service quality → Customer loyalty	0.196	2.061	0.020	Supported
Financial benefits → Customer loyalty	0.222	3.647	0.000	Supported
Spiritual benefits → Customer loyalty	0.166	2.066	0.019	Supported
Customer satisfaction → Customer loyalty	0.182	2.084	0.019	Supported

Source: Authors' data analysis using PLS-SEM

Mediation analysis was performed using bootstrapping, which provides robust confidence intervals without assuming normality (Hair et al., 2022). As presented in Table 8, customer satisfaction partially mediates the relationship between service quality and customer loyalty (β = 0.095, t = 1.980, p = 0.024), thus supporting H8. Similarly, a partial mediation effect was observed between spiritual benefits and customer loyalty (β = 0.030, t = 1.706, p = 0.044), thus supporting H10.

By contrast, the indirect effect of financial benefits on customer loyalty via customer satisfaction was not significant (β = 0.033, t = 1.565, p = 0.059). Since the direct path remains significant, while the indirect effect is not, this relationship is classified as direct-only non-mediation (Hair et al., 2022; Zhao et al., 2010), thus rejecting H9.

Table 8. Results of mediation analysis

Hypothesis	Direct effect β (t, p)	Result	Indirect effect β (t, p)	Result
H8: Service quality → Customer satisfaction → Customer loyalty	0.196 (2.061, 0.020)	Supported	0.095 (1.980, 0.024)	Supported
H9: Financial benefits → Customer satisfaction → Customer loyalty	0.222 (3.647, 0.000)	Supported	0.033 (1.565, 0.059)	Unsupported
H10: Spiritual benefits → Customer satisfaction → Customer loyalty	0.166 (2.066, 0.019)	Supported	0.030 (1.706, 0.044)	Supported

Source: Authors' data analysis using PLS-SEM

Explanatory power and effect size

The structural model demonstrated moderate to substantial explanatory power. As shown in Table 9, customer satisfaction is explained by service quality, financial benefits, and spiritual benefits, with an R^2 of 0.587 (adjusted R^2 = 0.582), indicating that the model captures a substantial proportion of the variance in satisfaction. Customer loyalty is explained by these predictors, with an R^2 of 0.423 (adjusted R^2 = 0.415), suggesting a moderate level of explanatory power, which is acceptable for behavioral research in complex service contexts. The effect size analysis (f^2) further revealed the relative importance of the predictors. Service quality exerts a significant effect on customer satisfaction (f^2 = 0.384), highlighting its central role in shaping post-consumption evaluations, consistent with expectancy disconfirmation theory.

In contrast, financial and spiritual benefits exhibited small effect sizes on satisfaction (f^2 = 0.043 and 0.021, respectively). For customer loyalty, all predictors show small but meaningful effect sizes, with service quality (f^2 = 0.044) and financial benefits (f^2 = 0.041) contributing comparably, whereas satisfaction shows a small mediating effect (f^2 = 0.017). These results indicate that, while satisfaction remains an important explanatory mechanism, financial benefits can foster loyalty directly through a utilitarian pathway, partially bypassing affective evaluation, thereby enriching EDT by revealing context-specific loyalty formation in Islamic banking.

Table 9. Structural model evaluation (R^2 and f^2 Results)

Endogenous variable	R^2	f^2 (SQ)	f^2 (FB)	f^2 (SB)	f^2 (CS)
Customer satisfaction	0.587	0.384	0.043	0.021	—
Customer loyalty	0.423	0.044	0.041	0.019	0.017

Source: Source: Source: Authors' data analysis using PLS-SEM

Discussions

The finding that service quality exerts a strong positive effect on customer satisfaction (β = 0.524, t = 8.537, $p < 0.001$) is firmly grounded in the expectancy disconfirmation theory (Oliver, 1980), which posits that satisfaction arises when perceived performance meets or exceeds prior expectations. The magnitude of this effect suggests that BSI's service attributes—particularly reliability, responsiveness, and assurance, consistently exceed customer expectations. Empirically, this outcome reflects the BSI's post-merger initiatives to standardize branch layouts, integrate service procedures, and strengthen frontline employee training, thereby enhancing service consistency. These improvements are especially salient in densely populated urban areas where customer interactions with banking services are frequent. This result reinforces prior evidence Amiruddin et al. (2023) and Dandis and Wright (2020), while extending it by demonstrating that merger-driven service integration can significantly enhance customer satisfaction in Islamic banking.

Financial benefits significantly predict customer satisfaction (Î ^{2} = 0.181, t = 2.867, p = 0.002). This relationship is best explained through a utilitarian consumption perspective, whereby customers evaluate services based on rational cost–benefit considerations (Zeithaml et al., 1988). Equitable profit-sharing schemes and transparent, low-fee structures fulfill customers' economic expectations, thereby strengthening satisfaction. This mechanism appears particularly relevant among urban clienteles, who tend to assess banking performance in terms of efficiency and financial returns. While this finding aligns with Souiden and Rani (2015) and Fianto et al. (2020), it contrasts with Hafasnuddin and Majid (2022), who underscore regional heterogeneity in how financial benefits are perceived and valued.

Spiritual benefits had a meaningful positive influence on customer satisfaction ($\beta = 0.167$, $t = 2.848$, $p = 0.002$). This finding is grounded in Islamic ethics theory, which emphasizes moral obligation, fairness, and compliance with Sharia principles as intrinsic sources of psychological and emotional fulfillment (Rice, 1999). Engagement in riba-free banking and Sharia-compliant practices generates intrinsic satisfaction through the expectation of *ajr al-akhirah* (other-worldly reward). In the BSI context, visible adherence to Islamic values—manifested in staff conduct and operational procedures—reinforces customers' moral reassurance and emotional comfort. This finding corroborates those of Hafasnuddin & Majid (2022) and Fusva et al. (2020), confirming that spiritual congruence constitutes a distinct satisfaction dimension beyond purely utilitarian considerations.

Service quality had a direct positive effect on customer loyalty ($\beta = 0.196$, $t = 2.061$, $p = 0.020$). Consistent with Oliver's (1999) loyalty framework, sustained service performance can foster habitual and conative loyalty even when satisfaction is not the sole intervening mechanism. In BSI's post-merger setting, unified digital platforms and standardized service protocols appear to have strengthened customers' routine reliance on the bank, challenging prior findings that position satisfaction is an exclusive pathway to loyalty (Abror et al., 2020).

Financial benefits also had a strong direct effect on loyalty ($\beta = 0.222$, $t = 3.647$, $p < 0.001$). From a utilitarian loyalty perspective (Dick & Basu, 1994), tangible economic advantages directly anchor repurchase intentions through a rational evaluation. BSI's competitive profit-sharing and pricing strategies, particularly during post-cyberattack recovery, appear sufficient to sustain customer loyalty despite temporary service disruptions. This result aligns with Hamouda (2019) but diverges from Hafasnuddin and Majid (2022), suggesting that contextual economic incentives can override affective loyalty mechanisms in specific settings.

Financial benefits significantly boosted loyalty ($\beta = 0.222$, $t = 3.647$, $p < 0.001$), supporting H5. Utilitarian loyalty theory suggests that tangible economic advantages, such as competitive profit-sharing, directly anchor customers' repurchase intentions. The BSI's swift financial incentives following its cyberattack appear to have cemented this direct link. This finding reflects the empirical tendency of customers to maintain loyalty when immediate economic benefits outweigh temporary service inconvenience. Aligning with Hamouda (2019), this study diverges from Hafasnuddin and Majid (2022), indicating that contextual pricing strategies can override affective pathways.

Likewise, spiritual benefits exerted a positive influence on loyalty ($\beta = 0.166$, $t = 2.066$, $p = 0.019$). In line with ethical consumption theory and the concept of action loyalty (Oliver, 2010), adherence to Islamic values fosters a resilient moral bond that sustains patronage beyond short-term service performance. This finding supports those of Fusva et al. (2020) and Rini and Absah (2017), highlighting the role of religious commitment in reinforcing customer loyalty.

Customer satisfaction significantly drives loyalty ($\beta = 0.182$, $t = 2.084$, $p = 0.019$), validating H7. Consistent with EDT (Oliver, 1980), satisfaction functions as a key loyalty anchor even in post-crisis settings. BSI's transparent recovery measures after its cyberattack likely reinstated customer trust, converting satisfaction into renewed commitment. This finding supports Abror et al. (2020), Moosa and Kashiramka (2023), and Albaity & Rahman (2021), demonstrating that satisfaction remains foundational to loyalty in diverse contexts.

Customer satisfaction partially mediates the relationship between service quality and loyalty (indirect $\beta = 0.095$, $t = 1.980$, $p = 0.024$; direct $\beta = 0.196$, $t = 2.061$, $p = 0.020$), supporting H_8. This complementary mediation (Zhao et al., 2010) indicates that service excellence both directly fosters loyalty and indirectly by first enhancing satisfaction. In the BSI context, customers perceive the bank as operating strictly in accordance with Islamic principles, benefiting from visually appealing branch interiors and staff, who are consistently willing to assist and respond promptly. These CARTER-compliant practices (e.g., Sharia-compliant processes and staff akhlāq) not only meet functional expectations but also convert service performance into emotional commitment. This dual pathway aligns with Dandis and Wright (2020) and Suhartanto et al. (2020), demonstrating that BSI's integrated service quality enhancements can deepen both satisfaction and loyalty.

Financial benefits showed a strong direct effect on loyalty ($\beta = 0.222$, $p < 0.001$), while the indirect effect via satisfaction was non-significant, indicating direct-only nonmediation. This finding has important implications for EDT. While EDT assumes satisfaction as the primary mechanism linking performance evaluations to behavioral outcomes, the absence of mediation suggests that financial benefits operate via a utilitarian pathway. In the BSI context, tangible economic advantages, such as low fees and attractive profit sharing, appear sufficient to generate loyalty through rational cost–benefit evaluations, without requiring affective satisfaction. This result is consistent with that reported by Hafasnuddin and Majid (2022). However, this contrasts with Fianto et al. (2020), Amegbe and Osakwe (2018), and Tetteh (2022), who reported complete mediation by satisfaction in Ghana's banking sector, highlighting the role of contextual and market differences. These findings indicate a boundary condition for EDT, in which utilitarian attributes may bypass satisfaction mechanisms. Thus, rejected mediation refines rather than weakens the theoretical model by distinguishing utilitarian-driven loyalty from satisfaction-based loyalty.

Customer satisfaction partially mediates the relationship between spiritual benefits and loyalty (indirect $\beta = 0.030$, $t = 1.706$, $p = 0.044$; direct $\beta = 0.166$, $t = 2.066$, $p = 0.019$), confirming H_{10}. This complementary mediation (Zhao et al., 2010) indicates that spiritual alignment first generates satisfaction through the fulfillment of religious values, which then crystallizes into loyalty. Our findings align with those of Hafasnuddin and Majid (2022), who demonstrate that greater satisfaction with spiritual benefits leads to stronger loyalty in Islamic banking. This is further supported by Rahman (2016) and Ashraf (2014), who document the mediating role of customer satisfaction in the link between perceived spiritual value and loyalty. In BSI's context of BSI, the promise of *ajr al-akhirah* combined with demonstrable staff adherence to Islamic ethics fosters both an emotional bond and satisfaction-driven commitment to the bank.

Conclusion

This study answers these research questions by demonstrating that service quality, financial benefits, and spiritual benefits significantly influence customer satisfaction and customer loyalty among Bank Syariah Indonesia (BSI) customers in Java. Service quality is the strongest determinant of customer satisfaction, whereas financial benefits exert a substantial direct effect on loyalty. Mediation analysis reveals a dual loyalty formation mechanism: customer satisfaction partially mediates the effects of service quality and spiritual benefits on loyalty but does not mediate the effect of financial benefits. This finding indicates that experiential and spiritual values foster loyalty through affective satisfaction, whereas financial incentives operate through a more utilitarian and satisfaction-independent pathway.

From a theoretical perspective, these findings extend Expectancy Disconfirmation Theory (EDT) by showing that disconfirmation processes in Islamic banking encompass not only functional service performance, but also spiritual benefits associated with Sharia compliance. The results highlight the coexistence of affective and utilitarian loyalty mechanisms in Islamic banking, refining EDT by identifying the boundary conditions under which satisfaction may or may not mediate it. In practice, Islamic banks should adopt a dual strategy to strengthen loyalty: enhancing satisfaction-driven loyalty through improved service quality and Sharia-aligned practices, while simultaneously offering competitive, transparent financial benefits to retain price-sensitive customer segments, particularly in the post-crisis and post-merger contexts.

This study had several limitations that suggest avenues for future research. The focus on Java and a single state-owned Islamic bank limits the generalizability to other regions and private Islamic banks with different governance structures. The dominance of younger respondents means that the findings primarily reflect loyalty mechanisms among youth and digital-native customers, rather than the broader customer population. Methodologically, a concise two-item satisfaction measure may not fully capture the multidimensional nature of satisfaction with the EDT. Future studies should expand geographically, include more diverse customer segments, employ multidimensional satisfaction scales, and adopt longitudinal designs to better capture loyalty dynamics, particularly in response to service disruptions and institutional changes.

Author contributions

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