THE MEDIATING ROLE OF GENERATION Z CUSTOMER SATISFACTION IN THE RELATIONSHIP BETWEEN SHARIA-BASED CUSTOMER SERVICE AND CUSTOMER LOYALTY AT BANK SYARIAH INDONESIA

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Abstract

In Islamic banking, sharia-based customer service has an important role in encouraging sustainable relationships with Generation Z customers, who tend to assess service quality critically and have high expectations toward service performance. The research addresses whether value-based customer service directly translates into brand loyalty or if it requires an intermediate emotional response. Consequently, the primary objective is to evaluate how Sharia-based service quality contributes to loyalty formation among Generation Z customers in Bank Syariah Indonesia through the presence of customer satisfaction as an intermediate mechanism. The study adopted a quantitative design and employed the Structural Equation Modeling technique to process primary data gathered from 94 eligible respondents. The analytical model focused on both technical service dimensions and Islamic ethical values, such as integrity and empathy. The findings reveal that while Sharia-inspired customer service significantly boosts satisfaction, it fails to produce a direct measurable effect on customer loyalty. Instead, the results demonstrate a "full mediation" effect; satisfaction acts as the essential bridge, where high-quality service leads to contentment, which subsequently drives loyal behavior. This suggests that for the younger generation, loyalty is not an immediate reaction to service encounters but a gradual outcome of meeting their specific expectations for ethical and professional excellence.

Keywords: Customer service, Sharia values, customer satisfaction, customer loyalty, Generation Z

INTRODUCTION

In the national economic context, Islamic banking functions as an intermediary institution that integrates economic objectives with sharia-based principles. Principles such as justice (*al-'adl*), honesty (*shidq*), trustworthiness (*amanah*), transparency, and public interest (*maslahah*) form the core foundation of product management, services, and the relationship between banks and customers (Meilani & Sugiarti, 2022). Consequently, the success of a Sharia bank is reflected not merely in its financial results, but also in how effectively it delivers services consistent with Islamic values. As public awareness of Sharia-compliant financial services grows, the industry in Indonesia has shown consistent positive trends, evidenced by a 15.88% year-on-year increase in Sharia financing and an 11.46% growth in Third-Party Funds. While this growth presents strategic opportunities, it also poses operational challenges due to rising customer expectations regarding service quality, particularly at branch service units where direct interaction occurs (Yandi, 2022).

Within Indonesia's sharia banking sector, Bank Syariah Indonesia continues to lead in asset size, reaching Rp357.9 trillion in the first quarter of 2024. This significant stature effectively positions BSI as the primary national benchmark for both financial performance and service quality standards within the Sharia banking sector. Given its expansive market share and a consistently growing customer base, the institution faces an imperative to uphold rigorous consistency in service quality across all operational units. This is particularly crucial at the branch office level, where the intensity of direct service interaction is most profound, serving as the critical touchpoint for customer engagement (Ningsih & Khoiruddin, 2023).

The rapid expansion of the customer base directly correlates with increased service complexity, which inherently raises the risk of a "service gap"—a discrepancy between customer expectations and their actual lived experience. In a highly competitive banking environment, service performance is increasingly recognized as an essential factor in building customer satisfaction and encouraging continued loyalty. Customers who encounter positive service experiences are not only inclined to engage in repeat transactions but also exhibit strong brand advocacy by providing favorable recommendations to others. Conversely, suboptimal service experiences possess the potential to erode satisfaction levels and incentivize customers to defect to competing institutions (Alwahidin & Afni, 2022). Consequently, the elevation of service quality must be viewed as a vital strategic instrument for cultivating and sustaining enduring customer loyalty. At the operational level, the delivery of banking services that involve direct interaction with customers is predominantly executed by the customer service unit. Functioning as the bank's essential "front line," customer service serves as the primary bridge connecting the institution with its clientele across a broad spectrum of needs—ranging from account initiation and product information dissemination to effective grievance redressal. Theoretically, customer service refers to an integrated series of service functions intended to generate customer satisfaction by optimally fulfilling their specific needs and desires (Fadilah & Hasibuan, 2021). Therefore, service performance becomes an essential factor influencing how customers assess the bank's professionalism, credibility, and institutional image (Umatin et al., 2024).

Within the paradigm of Sharia banking, the role of customer service encompasses a more complex dimension; staff are not only required to provide rapid and precise technical assistance but must also embody Sharia values in every service interaction. Customer service grounded in Sharia principles is reflected through an attitude of integrity (*amanah*), absolute honesty in disclosing information, fairness in treatment, deep empathy in handling complaints, and the consistent application of Islamic ethics in behavioral conduct. The quality of service that manifests these values serves as a pivotal indicator for customers to evaluate the extent to which a bank truly integrates Sharia principles into its actual operational practices (Prabowo et al., 2025).

Nevertheless, a variety of empirical findings indicate that customer service delivery frequently falls short of fulfilling customer expectations in an optimal manner. Issues such as a lack of responsiveness, deficient empathy, or inconsistencies with Sharia principles have emerged as dominant factors driving dissatisfaction, which subsequently pose a threat to customer loyalty (Alwahidin & Afni, 2022). This situation underscores a critical reality: a rapid surge in customer quantity that is not accompanied by a proportional enhancement in Sharia-based service quality represents a significant strategic risk to the future continuity of Sharia banking institutions.

In tandem with these operational challenges, shifts in customer demographics reveal that Generation Z is becoming an increasingly dominant force within the banking sector. Born between 1997 and 2012, this cohort is recognized for its high technological adaptability, extensive access to information, and a markedly critical disposition when evaluating the quality of services received (Rachmani, 2025). As a result of these characteristics, Generation Z tends to hold relatively high expectations and more refined standards toward financial service quality. Consequently, meeting the demands of this demographic requires more than just conventional service; it necessitates a seamless integration of professional excellence and ethical consistency.

Based on demographic statistics reported by Badan Pusat Statistik, Generation Z represents the largest demographic cohort in Indonesia, with a share of around 27.94% of the population or roughly 74.9 million people. Given its substantial size, this group exerts a profound influence on shifting consumption patterns and financial service utilization behaviors in Indonesia. Furthermore, according to the 2024 financial literacy and inclusion survey (SNLIK) released by OJK, Generation Z recorded a financial literacy level of 74.8%, with annual savings growth reaching 14.5%. These figures underscore the increasing activity of Generation Z in utilizing banking services and their potential as a vital customer segment for the future of the banking industry (Surjantoro et al., 2024).

For Generation Z, service quality is evaluated not merely through transaction speed and convenience but also through information transparency, professional conduct, and the alignment of services with their ethical values. In the realm of Sharia banking, these aspects become increasingly critical as customers anticipate services that are not only professional but also embody Sharia values such as honesty, integrity (*amanah*), and justice. When customer service units successfully deliver a service experience that meets these sophisticated expectations, Generation Z customers are more likely to experience a level of satisfaction that ultimately fosters long-term institutional loyalty.

Customer loyalty represents a vital strategic asset for banking institutions, as it significantly contributes to deposit stability, marketing cost efficiency, and long-term operational sustainability. Loyalty is not an instantaneous phenomenon; rather, it is cultivated through a process of satisfaction built upon consistent, high-quality service experiences that align with customer expectations. Numerous empirical studies have confirmed that service quality grounded in sharia values contributes to loyalty formation through direct relationships as well as indirect pathways where customer satisfaction functions as an intervening variable (Afifah & Kurniawati, 2021). Despite its strategic importance, empirical research specifically examining the role of Generation Z's satisfaction as an intervening mechanism connecting sharia-based customer service with loyalty in Indonesian sharia banking remains relatively limited. Consequently, this study is of paramount importance to provide a deeper analysis of how sharia-compliant customer service contributes to loyalty formation among Generation Z through customer satisfaction as a mediating mechanism.

Referring to the background described above, this study focuses on examining Generation Z satisfaction as an intermediary factor linking sharia value-based customer service and customer loyalty at Bank Syariah Indonesia through the use of the Structural Equation Modeling–Partial Least Squares approach. The expected results are intended to enrich sharia banking marketing literature and provide practical direction for strengthening service quality rooted in sharia principles.

REVIEW OF LITERATURE

Generation Z generally includes those born from the late 1990s until the early 2010s and is widely recognized as a generation shaped by rapid technological advancement. This generation is characterized by strong adaptability to technology, fast access to information, and a preference for services that are practical, efficient, and transparent. In daily life, Generation Z is highly familiar with digital-based services, which shapes high expectations regarding service quality, including within the financial services sector. This condition makes Generation Z an important customer segment for the banking industry, particularly Islamic banking, because they tend to evaluate service quality critically based on their service experiences.

In addition, Otoritas Jasa Keuangan, through the National Survey of Financial Literacy and Inclusion, reports that financial literacy among young people continues to improve, leading to more active utilization of banking services. This improvement in financial literacy encourages Generation Z to become more selective in choosing financial institutions that are able to provide fast, informative, transparent, and trustworthy services. Within sharia banking practices, this condition requires service performance that goes beyond being technically efficient but also capable of building trust through the implementation of Islamic values.

Service quality can be understood as the extent to which an institution is able to provide services in accordance with or beyond what customers expect. A commonly applied framework for assessing service quality is the SERVQUAL model, which consists of five key dimensions: tangibles, reliability, responsiveness, assurance, and empathy. Although originally developed as a general service quality framework, these dimensions remain highly relevant in contemporary banking studies because they reflect operational performance as well as how customers evaluate service encounters. Within banking institutions, service quality is commonly reflected through the ability of service personnel to provide clear information, prompt responses, accurate solutions, and courteous communication that meet customer expectations (Charan & Banana, 2024; Yesmin et al., 2023).

Within Sharia banking institutions, service performance is evaluated not merely through technical aspects of service delivery but also from the application of Islamic values in interactions with customers. These values include trustworthiness, honesty, transparency, fairness, empathy, and Islamic ethical conduct in serving customers. According to Otoritas Jasa Keuangan, Islamic banking operations must be based on principles of justice and ethics; therefore, customer service that reflects these values can strengthen customer trust in Islamic banks. For Generation Z, professional service combined with value-based interaction is especially important because they tend to assess service quality not only from outcomes but also from the service experience itself.

Customer satisfaction can be understood as the emotional response that emerges after customers evaluate whether the service received corresponds with their prior expectations. A higher level of customer contentment generally appears when service performance matches or surpasses what customers anticipate, whereas unmet expectations may reduce positive customer evaluations. In banking services, satisfaction levels are closely associated with service performance, ease of access, responsiveness, and the institution's capacity to offer solutions suited to customer needs.

For Generation Z, customer satisfaction is often shaped by service experiences that are fast, clear, communicative, and easy to understand. Customer service officers who are able to provide professional assistance using an approach aligned with the characteristics of younger customers tend to foster favorable service experiences. In Islamic banking, customer contentment is also affected by the degree to which service delivery reflects Islamic principles appreciated by customers.

Customer loyalty can be interpreted as the willingness of customers to maintain an ongoing relationship by consistently choosing a company's products or services over time. Loyalty is not only demonstrated through repeated use of services but also through willingness to recommend the service to others. In the banking industry, customer loyalty plays a strategic role because it enables banks to preserve enduring connections with clients while supporting sustainable business continuity.

Within Islamic banking, loyalty is determined not only by product and service excellence, but also by customers' confidence in how Islamic principles are applied throughout banking operations. Customers who feel satisfied with the service provided tend to develop stronger trust and continue using the bank's services. For Generation Z, loyalty can also be reflected through positive recommendations shared through social media and digital communication, indicating that loyalty within this generation also has a strong digital dimension.

Quality constitutes a key factor influencing public perceptions of an institution through the products or services it delivers. A service is generally regarded as high quality when performance successfully fulfills or exceeds customer expectations. Thus, service quality reflects customers' assessment of a company's capacity to provide services in accordance with expected and established standards (Hasifah et al., 2025). In this context, service quality also reflects customers' assessment of how effectively a service provider fulfills expected performance standards during service delivery (Hikmah et al., 2024).

In the context of Islamic banking, customer service quality is evaluated not only from technical elements such as promptness, accuracy, and clear communication, but also from how far Islamic values are internalized in every service interaction. Values such as trustworthiness, honesty, fairness, empathy, and Islamic ethics become important elements that shape customer perceptions of service quality. For Generation Z customers, who generally have high expectations regarding service quality, professional and value-based service can create positive service experiences that improve satisfaction with Islamic banking services.

Recent studies also show that the quality of service consistently contributes to higher satisfaction levels among customers in Islamic banking institutions. Previous research has confirmed that service quality contributes to customer loyalty through satisfaction acting as an intervening variable, while also reinforcing the direct association between service quality and customer satisfaction (Setyadi et al., 2023).

H1: Customer service quality based on Islamic values shows a significant relationship with customer satisfaction.

A high standard of customer service demonstrated through responsiveness, informativeness, accuracy, friendliness, and Islamic values such as trustworthiness, empathy, honesty, and Islamic ethics has the potential to strengthen emotional relationships between customers and banks and encourage loyal behavior. Customer loyalty represents a sustained commitment to continue utilizing banking services, conducting repeat transactions, and recommending the bank to others. For Generation Z customers, service quality is understood not solely from responsiveness and convenience, but also from interactions that build comfort and trust. When service quality meets customer expectations, the bond between customers and the bank tends to strengthen and supports the development of loyalty. Earlier research further confirms that service quality exerts a positive contribution to customer loyalty within Islamic banking. (Devi & Silviany, 2025).

H2: Sharia-based customer service quality significantly contributes to customer loyalty.

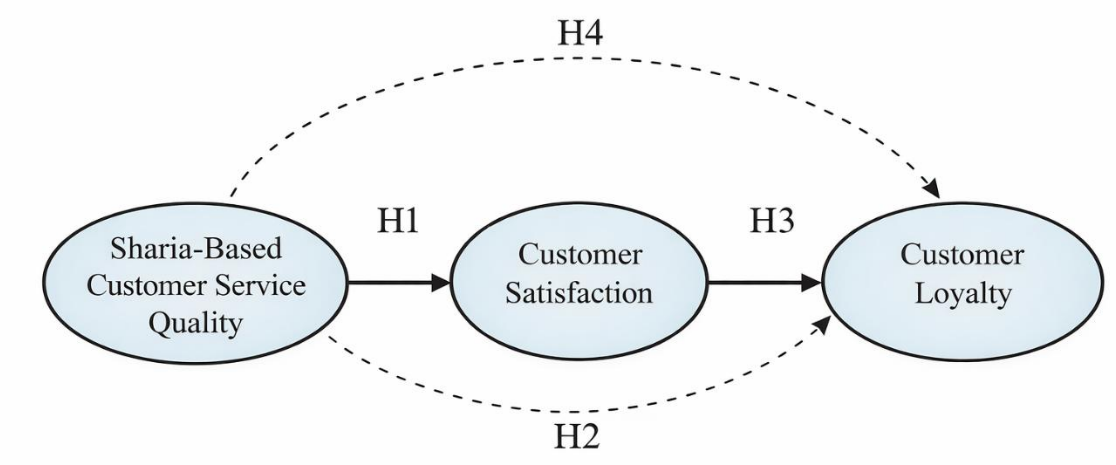
Customer satisfaction can be understood as an evaluative response formed after customers compare the services received with their prior expectations. Satisfaction the degree to which banking services successfully fulfill or surpass expected standards. Customers who are satisfied tend to demonstrate stronger commitment toward the bank and show long-term loyalty through repeated service use and positive recommendations to others. In Islamic banking, satisfaction levels are determined not only by technical aspects of service quality, but also by how far the services provided correspond with Islamic values held by customers. For Generation Z, satisfying service experiences can encourage loyal behavior such as repeated use of services and positive recommendations to others. Previous empirical findings reveal that customer satisfaction plays a positive and significant role in strengthening customer loyalty within Islamic banking, both through repeated service use and positive recommendations to others (Indana, 2020).

H3: Customer satisfaction makes a significant contribution to customer loyalty formation.

Furthermore, customer service grounded in Islamic values is intended to deliver service experiences that not only achieve strong technical quality but also embody Islamic principles such as trustworthiness, honesty, fairness, and empathy. Nevertheless, the effect of this type of service on customer loyalty does not always emerge in a direct manner, but frequently occurs through satisfaction as a mediating mechanism. Satisfaction develops when service experiences fulfill or surpass customer expectations, both in relation to technical performance and the alignment of perceived values. In Islamic banking, satisfaction acts as a bridge connecting customer service quality with customer loyalty. High-quality service aligned with Islamic values can increase satisfaction among Generation Z customers, which in turn encourages long-term commitment toward the bank. Several empirical studies show that customer satisfaction serves as a significant mediator linking service quality and customer loyalty in Islamic banking. (Janan & Firmansyah, 2025; Sudhartio et al., 2024; Zakiy & Azzahroh, 2017).

H4: Customer satisfaction significantly mediates the relationship between Sharia-based customer service quality and customer loyalty.

Figure 1
Conceptual Framework of the Study



RESEARCH METHOD

This research adopts a quantitative method with an explanatory design. This approach focuses on the use of numerical data and analytical procedures to test previously formulated hypotheses. This approach is applied to objectively explain the relationships among research variables through statistical analysis. Explanatory research is intended to clarify cause-and-effect connections among the variables under investigation. In this research, the analysis focuses on examining the effect of sharia-based service performance influences customer loyalty, with Generation Z customer satisfaction functioning as a mediator. The relationships among these variables are tested using empirical data gathered from research respondents. To test the proposed relationships, this research uses PLS-SEM. This method is chosen because it allows the analysis of complex research models, evaluates direct as well as indirect effects including mediation, and performs well even when the number of samples is relatively limited. (Nusrang et al., 2023).

In research methodology, variables refer to measurable attributes, characteristics, or concepts that may vary across individuals, objects, or situations. Variables are essential for explaining relationships among the concepts being studied and for identifying the influence of one variable on another (Sekaran & Bougie, 2016). To ensure that abstract concepts can be empirically tested, each variable in this study is operationally defined through measurable indicators. Operational definitions serve to transform theoretical concepts into practical measurements, thereby assisting the process of obtaining and evaluating data (Salma, 2022). A five-point Likert scale is used in this research to measure all research variables. Customer satisfaction is treated as an intervening construct and refers to customers' cognitive and affective evaluation that the performance of customer service, as perceived by customers, has met or exceeded their expectations. This variable is measured through several indicators, including customers' positive assessment of customer service quality, perceived satisfaction regarding service speed and accuracy, satisfaction with the attitude and friendliness of service officers, satisfaction with the clarity of information provided, and overall satisfaction with the services offered by Bank Syariah Indonesia (Fadilah & Hasibuan, 2021).

Service quality is positioned as the independent variable and reflects customers' perceptions of the competence, friendliness, responsiveness, and shown by customer service officers at Bank Syariah Indonesia in responding to customer expectations, based on an adaptation of the SERVQUAL concept. This variable consists of two dimensions. The technical service dimension includes service speed, accuracy in service delivery, clarity of procedures and information, and the competence of customer service officers. Meanwhile, the sharia value dimension includes trustworthiness reflected through honesty and reliability, fairness in serving customers, empathy toward customer needs, and Islamic ethics in attitude and communication (Prabowo et al., 2025). Customer loyalty is used as the dependent variable and refers to customers' intentions and actual behavior to continue using Bank Syariah Indonesia products and services repeatedly while also recommending them to others. This variable is measured through indicators such as the intention to reuse banking services, willingness to consider the bank as the primary choice, reluctance to switch to another bank, willingness to recommend the bank to others, and long-term commitment toward the bank (Devi & Silviany, 2025).

The research population includes Generation Z customers who use Islamic banking services. Population can be understood as the entire set of subjects sharing certain characteristics determined by the researcher for study purposes and from which conclusions are ultimately drawn (Sekaran & Bougie, 2016). In this research, Generation Z is defined as individuals aged approximately 17 to 28 years, corresponding to those born between 1997 and 2012 according to Badan Pusat Statistik. A sample is a portion of the population used to reflect its characteristics and provide research data. Purposive sampling is applied in this research, where respondents are selected based on criteria that correspond to the objectives of the study. These criteria include Islamic banking users, individuals within the Generation Z age group, and those who have previously interacted with customer service officers. A total of 110 respondents completed the questionnaire; however, following the data screening process, 14 respondents were excluded because they had never interacted with customer service, while 2 respondents were excluded because they were older than 28 years. Consequently, the final sample consisted of 94 respondents who met all research criteria.

Primary data serves as the main source of information in this study. Such data are obtained directly from the original source by the researcher to meet specific research objectives, meaning that the data are obtained from respondents' direct experiences or responses without intermediary sources or prior processing (Ajayi, 2023). A questionnaire survey was used as the method for obtaining data in this study. The questionnaire was delivered to target respondents through digital platforms using a Google Forms link, which was completed directly by respondents based on their personal service experiences. Each statement in the questionnaire used a five-category Likert scale to capture respondents' levels of agreement, starting from strongly agree and ending with strongly disagree. For data analysis, PLS-SEM is used in this research. Its selection is based on the ability to examine complex relationships without requiring strict normality assumptions and on its suitability for relatively limited sample sizes. Moreover, the use of PLS-SEM makes it possible to evaluate direct, indirect, and mediating relationships among variables at the same time. (Nusrang et al., 2023).

Three major stages were applied in analyzing the research data. Evaluation of the measurement model (outer model) formed the first stage, covering convergent validity through loading factors and Average Variance Extracted (AVE), discriminant validity based on the Fornell–Larcker criterion or HTMT, and construct reliability assessed through Cronbach's Alpha and Composite Reliability. The second analytical stage concentrated on structural model (inner model) assessment, with predictive capability evaluated through R-square and F-square values. Hypothesis testing was then performed at the final stage using bootstrapping to obtain statistical significance through t-statistics and p-values, enabling both direct and mediated effects to be examined. Such an analytical framework is commonly employed in Islamic banking studies concerning service quality, satisfaction, and loyalty. (Janan & Firmansyah, 2025; Setyadi et al., 2023).

RESULTS AND DISCUSSION

Evaluation of the measurement model was carried out to verify the validity and reliability of the indicators applied in this research. This step plays an important role in confirming that each indicator properly represents the latent construct before further analysis of the structural model is performed. The assessment covers convergent validity, discriminant validity, and construct reliability testing. To evaluate convergent validity, the loading factor of every indicator on its related construct was examined. A loading value above 0.70 indicates that the indicator is valid, reflecting a strong connection with the latent variable it represents. Greater loading factor values also show that the indicators consistently capture the construct and strengthen the measurement model.

Table 1
Outer Loading Values of Research Indicators

Number of Indicators	Service Quality (X)	Customer Loyalty (Y)	Customer Satisfaction (M)
1	0.718	0.820	0.768
2	0.757	0.829	0.843
3	0.726	0.806	0.702
4	0.778	0.791	0.808
5	0.767	0.823	0.868
6	0.733	0.845	0.742
7	0.725	0.772	0.834
8	0.741	0.803	0.809
9	0.776	0.831	0.822
10	0.831	0.840	0.786
11	0.789		
12	0.740		
13	0.784		
14	0.757		
15	0.723		

16	0.768

Source: Primary data processed through SmartPLS software, 2026

According to the SEM-PLS results, loading factor values for all indicators of sharia-based customer service quality (X), customer satisfaction (M), and customer loyalty (Y) are above the 0.70 threshold. This confirms that convergent validity criteria are fully achieved. The indicators therefore reflect a strong association with their latent constructs and are adequate for measuring the research variables. This outcome confirms that the measurement instrument used in the study has acceptable construct validity, indicating that every indicator adequately captures the conceptual dimensions of service quality, customer satisfaction, and customer loyalty in the Islamic banking context. High loading factor values also indicate that respondents consistently perceived the questionnaire items as relevant to their service experiences.

To confirm construct reliability, Cronbach's Alpha, Composite Reliability, and Average Variance Extracted (AVE) were employed as evaluation measures. Reliability testing is important to ensure internal consistency among indicators within each construct and to verify that the measurement model produces stable and dependable results. The reliability test results show the following values:

Table 2
Construct Reliability and Convergent Validity Results

Variable	Cronbach's alpha	Composite reliability	Average variance extracted
Service Quality (X)	0.950	0.956	0.574
Customer Loyalty (Y)	0.944	0.952	0.666
Customer Satisfaction (M)	0.937	0.946	0.639

Source: Primary data processed through SmartPLS software, 2026

Results of the reliability analysis reveal that Cronbach's Alpha and Composite Reliability values for each variable exceed the 0.70 threshold, whereas AVE values are above 0.50. These findings suggest that all constructs possess satisfactory reliability and adequately account for the variance represented by their indicators. Therefore, the measurement model can be considered internally consistent and capable of maintaining adequate convergent validity in measuring the latent variables. After the adequacy of the measurement model was confirmed, the analysis continued with evaluation of the structural model to examine the strength of relationships among variables in the proposed research framework and to test the formulated hypotheses.

This stage is important in SEM-PLS because it provides information regarding the predictive capability of the model and the significance of causal relationships among latent constructs. Structural model assessment generally includes the examination of R-square values, effect size, and hypothesis testing through bootstrapping procedures. To measure the explanatory capacity of the model, the coefficient of determination (R^2) was examined to determine how much variance in the dependent variable can be explained by the independent variable. Higher R-square values indicate stronger predictive ability of the endogenous constructs.

Table 3
R-Square Values of Endogenous Variables

Variable	R-Square	R-Square Adjusted

Y	0.405	0.392
M	0.762	0.759

Source: Primary data processed through SmartPLS software, 2026

The coefficient of determination shows that customer loyalty has an R-square value of 0.405, meaning that 40.5% of the variation in customer loyalty can be explained by sharia-based service quality and customer satisfaction within the proposed model. The remaining 59.5% is associated with other factors not included in this research framework. This indicates that although both variables contribute meaningfully to loyalty formation, they do not fully capture all determinants influencing customer loyalty in Islamic banking. Other aspects such as trust in the institution, perceived benefits received by customers, digital banking experience, product competitiveness, and long-term relationship quality may also affect whether customers remain loyal and continue using Islamic banking services.

For customer satisfaction, the R-square value reaches 0.762, which means that 76.2% of the variance in satisfaction is explained by sharia-based customer service quality. This relatively high value reflects strong explanatory capability of the model in predicting customer satisfaction. The result suggests that customer satisfaction is highly influenced by how service is delivered, including responsiveness, clarity of information, friendliness, and the consistency of service behavior with Islamic values such as honesty, fairness, and trustworthiness. In the context of Islamic banking, customers tend to form satisfaction not only from technical service performance but also from the extent to which service interactions reflect values that align with their expectations and beliefs.

Model fit was further assessed by examining the Standardized Root Mean Square Residual (SRMR) as one of the indicators used to evaluate the adequacy of the SEM-PLS model. The SRMR value reflects the degree of difference between the covariance matrix observed from the data and the covariance matrix estimated by the model. A value below 0.08 indicates that the discrepancy remains within an acceptable range, suggesting that the proposed model is able to represent the empirical data well. Therefore, a low SRMR value confirms that the overall model has a satisfactory level of fit and can be considered appropriate for analyzing the relationships among the latent variables included in this study.

Table 4
Model Fit Assessment Results

	Saturated model	**Estimated model**
SRMR	0.067	0.067
d_ULS	3.026	3.026
d_G	3.236	3.236
Chi-square	1211.135	1211.135
NFI	0.658	0.658

Source: Primary data processed through SmartPLS software, 2026

The SEM-PLS analysis produced an SRMR value of 0.067, which indicates that the proposed research model achieves an acceptable level of fit. Because this value is lower than the recommended threshold of 0.08, the discrepancy between the observed data and the covariance structure estimated by the model remains within acceptable limits. This finding confirms that the structural model is sufficiently appropriate to explain the relationships among the latent variables examined and that the empirical data are well represented by the proposed framework. With the adequacy of model fit established, the next stage involved hypothesis testing through the bootstrapping procedure in SEM-PLS.

This procedure was carried out by examining T-statistics and P-values generated from structural model estimation in order to evaluate the statistical significance of both direct and indirect relationships among variables. Through this approach, each proposed hypothesis can be empirically assessed to determine whether the relationships specified in the research model are supported by the observed data. The decision criteria used in hypothesis testing are based on the significance threshold commonly applied in SEM-PLS analysis, meaning that a proposed hypothesis is regarded as significant if the T-statistic exceeds 1.96 and the P-value remains below 0.05.

Table 5
Direct Effect Hypothesis Testing Results

	Original sample (O)	**Sample mean (M)**	**Standard deviation (STDEV)**	**T statistics (O/STDEV)**	**P values**
X -> Y	0.035	0.039	0.162	0.217	0.828
X -> M	0.873	0.876	0.030	29.470	0.000
M -> Y	0.605	0.607	0.143	4.243	0.000

Source: Primary data processed through SmartPLS software, 2026

The hypothesis testing results indicate that sharia-based customer service quality does not have a statistically significant direct influence on customer loyalty. This is reflected in the T-statistic value of 0.217, which is lower than the required critical value of 1.96, along with a P-value of 0.828 that remains above the 0.05 significance threshold. These findings imply that improving customer service quality alone is not sufficient to directly strengthen customer loyalty among the respondents. Within the Islamic banking context, customer loyalty appears to be influenced by broader considerations beyond service interactions, including trust built over time, compatibility of banking products with customer needs, ease of digital banking access, and emotional commitment toward the institution.

A different pattern is found in the relationship between sharia-based customer service quality and customer satisfaction. The statistical test shows a strong positive and significant effect, indicated by a T-statistic of 29.470 and a P-value of 0.000. This result confirms that service performance characterized by responsiveness, professional competence, and the consistent application of sharia principles such as fairness, honesty, empathy, and ethical conduct contributes substantially to the formation of customer satisfaction. The strength of this relationship suggests that respondents place considerable importance on service experiences that not only meet technical service expectations but also reflect values consistent with Islamic principles.

A positive and statistically significant relationship is also found between customer satisfaction and customer loyalty, as reflected in the T-statistic value of 4.243 and the P-value of 0.000. These results indicate that customers who experience higher levels of satisfaction tend to remain committed to using the bank’s services, build longer-term relationships, and are more willing to recommend the bank to other potential customers. In this research, customer satisfaction serves as an important psychological mechanism through which favorable service experiences are transformed into loyalty-related behavior.

To explore this relationship more comprehensively, mediation analysis was subsequently carried out to assess whether customer satisfaction acts as an intervening variable in the relationship between sharia-based customer service quality and customer loyalty.

Table 6
Indirect Effect of Customer Satisfaction in the Structural Model

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
X -> Z -> Y	0.528	0.531	0.124	4.256	0.000

Source: Primary data processed through SmartPLS software, 2026

Statistical testing of the indirect effect confirms that customer satisfaction significantly mediates the relationship between sharia-based customer service quality and customer loyalty. The result is supported by a T-statistic of 4.256, exceeding the critical value of 1.96, and a P-value of 0.000, which is below the accepted significance level of 0.05. This indicates that the mediating role of customer satisfaction is empirically supported in the model.

The result suggests that service quality alone is insufficient to directly create loyalty, but becomes influential when customers first experience satisfaction from the service received. Through this process, customer satisfaction acts as an intermediary mechanism that transforms positive service perceptions into loyalty-related responses. In the context of Bank Syariah Indonesia, the implementation of sharia values such as trustworthiness, fairness, empathy, and Islamic ethics in service interactions appears to build stronger satisfaction, which then translates into customers' willingness to continue using banking services, maintain long-term relationships, and provide positive recommendations to others.

The finding also reinforces the argument that customer satisfaction functions as an essential psychological pathway that links service quality to loyalty formation. Therefore, improving customer service quality through the consistent application of sharia principles can indirectly strengthen customer loyalty by first enhancing customers' service experiences and satisfaction levels.

Discussion

The objective of this study is to investigate the relationship between sharia-based customer service quality and customer loyalty while also assessing the mediating role of customer satisfaction among Generation Z customers at Bank Syariah Indonesia. The empirical findings reveal that customer service quality does not directly generate loyalty, but significantly improves customer satisfaction, which subsequently contributes to customer loyalty. These results provide an important perspective on how service quality in Islamic banking influences customer behavior, particularly among Generation Z customers, whose service expectations are shaped by both technical efficiency and value-based interactions.

The Effect of Sharia-Based Customer Service Quality on Customer Loyalty

The empirical results indicate that sharia-based customer service quality does not exert a statistically significant direct influence on customer loyalty. This suggests that although service quality remains an essential aspect of customer interaction in banking services, its presence alone is not enough to immediately establish long-term loyalty. Within the Islamic banking environment, loyalty tends to emerge from a wider combination of factors, such as trust in the institution, suitability of banking products, institutional reputation, and the overall service experience perceived by customers.

From the SERVQUAL perspective, this finding may be understood by considering that service quality primarily shapes customer perceptions through dimensions such as reliability, responsiveness, assurance, empathy, and tangible evidence of service delivery. However, these dimensions often contribute at the early stage of customer evaluation and do not automatically lead to loyalty unless supported by other factors that strengthen customers' commitment to the bank. Customers generally evaluate service encounters cognitively before developing affective responses that eventually lead to commitment and loyalty.

For Generation Z customers, loyalty formation tends to be more complex because this generation is highly adaptive to digital technology, has access to multiple financial service alternatives, and tends to compare service providers critically. As a result, loyalty is not determined solely by direct interaction with customer service officers, but also by digital accessibility, mobile banking quality, institutional credibility, and banking product innovation.

A similar result was reported by Cindy Kartika Sari et al. (2024), who found that service quality did not directly contribute to customer loyalty in the Islamic banking context, while customer satisfaction and trust showed a stronger influence on loyalty formation. However, this result differs from the findings of Sri Devi and Irma Yulita Silviany (2025), whose findings demonstrated a significant positive relationship between service quality and customer loyalty. Such variation suggests that customer loyalty may vary across customer segments and service contexts, particularly when younger generations are involved.

The Effect of Sharia-Based Customer Service Quality on Customer Satisfaction

Empirical results confirm a significant positive relationship between sharia-based customer service quality and customer satisfaction. This suggests that improvements in service delivery strengthen customers' positive perceptions of their overall banking experience. In Islamic banking services, satisfaction is influenced not only by operational efficiency and responsiveness, but also by the application of ethical values rooted in Islamic principles. Philip Kotler et al. (2022) explain that satisfaction arises when customers perceive service performance as equal to or higher than their expectations. In this study, customer satisfaction appears to be strongly influenced by service characteristics such as responsiveness, clarity of information, professionalism, and consistency in applying sharia values during customer interactions.

The sharia dimension plays an important role because customers perceive honesty, trustworthiness (*amanah*), fairness, empathy, and Islamic ethics as indicators of institutional integrity. When customer service officers demonstrate these values consistently, customers tend to form favorable views toward the bank and feel satisfied with the services received. This finding supports previous studies by Putra and Latifah (2025), which identified reliability, responsiveness, and empathy as important service quality dimensions affecting customer satisfaction in Islamic banking. Similar findings were also reported by Putri and Surur (2025), emphasizing that professional and responsive service strengthens positive customer experiences.

For Generation Z, emotional elements within service interactions also play an important role in determining satisfaction. Friendly communication, quick responses, and transparent explanations contribute to positive service experiences, which are highly valued by younger customers who tend to expect efficiency and clarity in financial services.

The Effect of Customer Satisfaction on Customer Loyalty

The findings confirm a significant positive relationship between customer satisfaction and customer loyalty. This indicates that customers who feel satisfied are generally more inclined to remain loyal by continuing to use banking services, preserving long-term engagement, and sharing positive recommendations with others. From the perspective of customer behavior theory, satisfaction functions as a key determinant of repeated behavioral intention. Customers are more likely to establish trust and remain committed to the institution when their expectations are consistently satisfied.

In banking services, customer loyalty has strategic implications because loyal customers contribute to long-term business sustainability. Satisfaction strengthens relational attachment and reduces the tendency of customers to switch to competing financial institutions. Comparable results were identified in a previous study by Sri Devi and Irma Yulita Silviany (2025), which showed that customer satisfaction significantly influences loyalty in Islamic banking. Similar results were also found by Cindy Kartika Sari et al. (2024), who emphasized that consistent service experience strengthens customer commitment.

However, some studies, such as those by Chodijah et al. (2025), suggest that satisfaction alone may not always guarantee loyalty when customers have access to highly competitive digital financial alternatives. This is particularly relevant for Generation Z, whose loyalty is strongly shaped by convenience, innovation, and service relevance.

The Mediating Role of Customer Satisfaction

An important result of this study is the identification of customer satisfaction as a full mediator between sharia-based customer service quality and customer loyalty. This means that improvements in service quality influence loyalty indirectly by first increasing customer satisfaction, which later contributes to loyal behavior. This full mediation finding suggests that customer satisfaction serves as the main psychological mechanism connecting service experiences to long-term behavioral commitment. Customers first evaluate whether service interactions meet both practical expectations and ethical standards before developing loyalty toward the bank.

Comparable results were reported by Andre Setiawan et al. (2025), demonstrating that service quality contributes to customer loyalty indirectly by first strengthening customer satisfaction. Similar conclusions were also drawn by Cindy Kartika Sari et al. (2024), highlighting that positive service experiences must first create satisfaction before loyalty emerges. However, this differs from the findings of Sri Devi and Irma Yulita Silviany (2025), who found that service quality directly influenced loyalty without mediation. These differences indicate that generational characteristics may shape how loyalty is formed in Islamic banking.

In this study, the implementation of sharia values through customer service interactions appears to strengthen customer satisfaction by creating positive emotional experiences, trust, and ethical comfort. This satisfaction then reinforces customer attachment and ultimately encourages loyalty toward Bank Syariah Indonesia. Therefore, improving customer service quality through consistent application of sharia values remains essential for strengthening customer loyalty in Islamic banking, particularly among Generation Z customers.

CONCLUSION

Empirical evidence from this research confirms that sharia-based customer service quality does not directly influence customer loyalty among Generation Z customers of Bank Syariah Indonesia, indicating that loyalty formation in Islamic banking involves a more complex process than direct service evaluation alone. For Generation Z customers, loyalty is shaped not only by face-to-face service quality but also by broader service experiences, including convenience, efficiency, and consistency across banking interactions. On the other hand, customer satisfaction is significantly shaped by sharia-based customer service quality, demonstrating that professional service delivery integrated with Islamic values such as trustworthiness, honesty, empathy, and fairness remains an important determinant of positive customer evaluation.

The study further confirms customer satisfaction significantly contributes to customer loyalty and fully mediates the effect of sharia-based customer service quality on loyalty. This provides theoretical support for Islamic banking research by highlighting customer satisfaction as the central psychological mechanism that connects service quality to loyalty among Generation Z customers. The result also expands previous studies by emphasizing that sharia values in service delivery do not automatically generate loyalty unless they first create satisfaction.

From a practical perspective, these findings imply that Bank Syariah Indonesia needs to strengthen customer service quality not only through technical service improvement but also through the consistent internalization of sharia values in customer interactions. In addition, service strategies should be integrated with digital service innovation, considering that Generation Z customers are highly responsive to speed, accessibility, and technological convenience. Subsequent research is encouraged to examine additional factors, including trust, digital service quality, bank image, and perceived value of sharia products, so that customer loyalty in Islamic banking can be understood more comprehensively.

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