



# Switching Behavior of Islamic Banking Customers: Factors Influencing Customer Retention, Switching Intention, and Legal-Governance Mechanisms

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**Abstract:** *This study aims to examine the influence of Customer Value on Switching Costs and Customer Retention, investigate the mediating role of Switching Costs in the relationship between Customer Value and Customer Retention, and analyze the effect of Sharia Compliance on Switching Costs and Switching Intention. The research adopts a quantitative approach with statistical data collected using a questionnaire instrument, hence referred to as primary data, employing purposive sampling technique in data collection, and distributing the questionnaire instrument online via Google Form. A total of 282 valid data were suitable for analysis. The data analysis technique utilizes the partial least square structural equation modeling approach (SEM-PLS) using the SmartPLS application. The research findings highlight the significant influence of Customer Value on both Switching Costs and Customer Retention in the banking sector. Switching Costs play a crucial role in shaping customers' intentions to switch banks. Furthermore, while Switching Costs do not directly affect Customer Retention, they mediate the positive relationship between Customer Value and Customer Retention. Moreover, the research identifies a positive relationship between Shariah Compliance and Switching Costs, indicating Islamic banking customers' adherence to Shariah principles. However, Shariah Compliance does not directly influence Switching Intention.*

**Keywords:** *Customer Retention; Customer Value; Sharia Compliance; Switching Cost; Switching Intention.*

## Introduction

Islamic banking is a financial institution whose operations are based on Sharia principles<sup>1</sup>. The establishment of Islamic banks stems from the community's desire to avoid transactions prohibited in Islam, such as usury (*riba*), uncertainty (*gharar*), and transactions that harm others (*maisyr*) . Islamic banking in Indonesia has experienced significant growth. The resilience of Islamic economics and finance, encompassing Sharia banking, the Sharia capital market, and Sharia Non-Bank Financial Industry (NBFI), has been evident in its adaptive strategies, yielding a positive trajectory amidst the pandemic. In 2022, the total assets of the Sharia financial industry amounted to IDR2,375.84 trillion, representing a share of 15.87%, up from IDR2,050.44 trillion or 13.82% year-on-year (yoy) in 2021<sup>2</sup>. The Sharia Capital Market, comprising the largest segment of Sharia financial assets at 60.08%, experienced a growth rate of 15.51% (yoy) in 2022, surpassing the 2021 growth rate of 14.83% (yoy).

Sharia banking, accounting for 33.77% of Sharia finances, accelerated to a growth rate of 15.63% (yoy) in 2022, compared to 13.94% (yoy) in 2021<sup>3</sup>. Concurrently, Sharia NBFI constituted 6.15% of the total assets in Sharia finances, demonstrating rapid growth of 20.88% (yoy) in 2022, in contrast to 3.90% (yoy) in 2021<sup>4</sup>. This certainly raises a particular concern for Islamic banks to consistently address their business aspects, enticing conventional customers to switch to Islamic banks.

The phenomenon of Islamic banking in Indonesia over the past decade has been highly intriguing for investigation. The emergence of Islamic banking in Indonesia has garnered positive responses from both the public and investors, evident in the increasing number of new

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<sup>1</sup> Muhamad Abduh et al., "Factors Influence Switching Behavior of Islamic Bank Customers in Malaysia," *Journal of Islamic Finance* 2, no. 1 (2013): 12–19,

<sup>2</sup> OJK, *Indonesian Islamic Finance Report 2022* (Otoritas Jasa Keuangan, RI, 2022), 1–184.

<sup>3</sup> OJK, *Indonesian Islamic Finance Report 2022*.

<sup>4</sup> OJK, *Indonesian Islamic Finance Report 2022*.

Islamic banks in Indonesia attracting investors from other countries<sup>5</sup>. Practitioners and academics in Islamic economics have been discussing the issues and challenges faced by Islamic banks to ensure compliance with Sharia principles in society<sup>6</sup>. The presence of a dual banking system, both in conventional banks and Islamic banks, generally serves a strategic function as intermediaries and service providers in payment transactions<sup>7</sup>. However, the characteristics of these two types of banks can influence prospective customer's behavior in determining their preferences for either type of bank<sup>8</sup>. Furthermore, customer's behavior towards banking products in both conventional and Islamic banks can be influenced by society's attitudes and perceptions towards the characteristics of the banking system itself<sup>9</sup>.

Banks consumer have faced situations where they must decide whether to stay or leave. Some choose to stay, while others opt to leave. Just as satisfied customers aren't always loyal, dissatisfied ones don't necessarily leave<sup>10</sup>. The behavior of Muslim consumers indicates not only substantial purchasing power but also a vocal pride in their religious identity<sup>11</sup>. Interestingly, Islamic banking has managed to

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<sup>5</sup> Ahmad Abbas and Ainun Arizah, "Marketability, Profitability, and Profit-Loss Sharing: Evidence from Sharia Banking in Indonesia," *Asian Journal of Accounting Research* 4, no. 2 (2019): 315–26.

<sup>6</sup> Paolo Pietro Biancone et al., "Crowdfunding and Fintech: Business Model Sharia Compliant," *European Journal of Islamic Finance*, no. 12 (2019): 1–9.

<sup>7</sup> Rima Turk Ariss, "Competitive Conditions in Islamic and Conventional Banking: A Global Perspective," *Review of Financial Economics* 19, no. 3 (2010): 101–8; Muhammad Fakhruallah Haziq Waharudin, "The Effect of Islamic Marketing Ethics toward Customer Satisfaction, Trust and Loyalty to Islamic Banks," *International Journal of Innovation and Business Strategy (IJIBS)* 11, no. 1 (2018): 36–50.

<sup>8</sup> Syed Abdul Rehman Bukhari, "Switching Behavior of Customers from Conventional to Islamic Banking," *Jinnah Business & Economics Journal*, 2019.

<sup>9</sup> Bukhari, "Switching Behavior of Customers from Conventional to Islamic Banking"; Sherif Ghamry and Hamed M. Shamma, "Factors Influencing Customer Switching Behavior in Islamic Banks: Evidence from Kuwait," *Journal of Islamic Marketing*, no. 19 (2020).

<sup>10</sup> Munazza Saeed and Ilhaamie Abdul Ghani Azmi, "A Cross-Cultural Study of Staying Reasons of American Brands: Analysis of Millennial Muslim Consumers," *Journal of Islamic Marketing* 10, no. 1 (2019): 249–68, <https://doi.org/10.1108/JIMA-08-2017-0086>.

<sup>11</sup> Rasha H. A. Mostafa and Mohamed Mahmoud Ibrahim, "The Effects of Customer Equity and Religious Motivation on Customer Retention and Switching Intention: A Study of the Egyptian Banking Sector," *Journal of Islamic Marketing* 11, no. 6 (2020): 1873–91.

persevere in adverse situations. However, overall, Islamic banking still holds prospective potential for switching among Muslim consumers. It's intriguing to understand why Muslim consumers might switch and to what extent Islamic banking can prevent such switches

Switching behavior is heavily influenced by switching intention, it can be indicates that the stronger customer's intention to switch to Islamic banking, the more likely it is to be reflected in their actions<sup>12</sup>. Switching intention, or the intention to switch customers, signifies the partial or complete termination of a customer's relationship with their current service provider. This occurs when a customer maintains their current provider relationship while seeking out other service providers<sup>13</sup>. Customer switching is categorized into internal and external switches. Internal switching occurs when a customer switches to another product or service within the same company, while external customer switching happens when a customer uses an alternative product or service outside their current company.

The commonly used theory to explain consumer behavior is the Theory of Planned Behavior (TPB). This theory suggests that an individual's intention towards something can be seen through their subjective attitude, norms, and perceived behavioral control<sup>14</sup>. Attitude arises from an individual's intention, while subjective norms relate to their perceived beliefs originating from their surrounding environment. Additionally, intention is influenced by perceived behavioral control or behavioral control<sup>15</sup>. There are three types of intentions or interests, first, intention is defined as the expectation to do something; second,

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<sup>12</sup> Samrena Jabeen et al., "Switching Intentions: A Case of Saudi Arabian Hypermarkets," *International Journal of Economics and Financial Issues* 5 (2015): 215–22.

<sup>13</sup> Inger Roos et al., "Customer Switching Patterns in Competitive and Noncompetitive Service Industries," *Journal of Service Research* 6, no. 3 (2004): 256–71.

<sup>14</sup> Icek Ajzen, "Attitudinal vs. Normative Messages: An Investigation of the Differential Effects of Persuasive Communications on Behavior," *Sociometry* 34, no. 2 (1971): 263–263; Icek Ajzen, "The Theory of Planned Behavior: Frequently Asked Questions," *Human Behavior and Emerging Technologies* 2, no. 4 (2020): 314–24.

<sup>15</sup> Simarpreet Kaur and Sangeeta Arora, "Role of Perceived Risk in Online Banking and Its Impact on Behavioral Intention: Trust as a Moderator," *Journal of Asia Business Studies* 15, no. 1 (2021): 1–30.

intention is interpreted as the desire to do something; and third, intention is defined as a plan to do something. It is known that previous research results contradict the Theory of Planned Behavior (TPB) formulated regarding switching intention. This undoubtedly presents a research gap for researchers to explore switching intention. Thus, the aim of this research is to fill the gap around switching cost dimensions and the relationship between customer equity (CE) and Sharia compliance (SC) to customer retention (CR) and switching intention (SI).

Previous studies such as Barid et al., (2021) aimed to analyze the factors influencing the switching intention of Sharia bank customers in Malang City using the Theory of Planned Behavior. The analysis results showed that attitude, subjective norm, and perceived behavioral control are influential factors on switching intention at Sharia banks in Malang City. Attitude variables are the dominant factors influencing switching intention. Furthermore, research by Ghamry and Shamma in 2020<sup>16</sup> aimed to identify the most significant factors causing Sharia bank customers to switch their banks. Empirical analysis revealed that service convenience, service reliability, technology satisfaction level, and Sharia compliance were the most significant factors influencing customer switching behavior in Kuwait's Sharia banks. Therefore, Sharia bank managers should focus on these factors when developing their strategies to enhance customer satisfaction and loyalty. Loyal customers are more profitable than new customers because they tend to use more services, spread positive word-of-mouth, and, importantly, they tend to reject competitor's offers.

On the other hand, John J. Ireland in 2018<sup>17</sup> demonstrates the exchange rate differential needed to influence Muslim banking customers to switch to conventional banks. His research shows that overall, Muslim Sharia bank customers favor Sharia banks and products.

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<sup>16</sup> Ghamry and Shamma, "Factors Influencing Customer Switching Behavior in Islamic Banks: Evidence from Kuwait." *Journal of Islamic Marketing* issue 1995 (2020).

<sup>17</sup> John J. Ireland, "Just How Loyal Are Islamic Banking Customers?," *International Journal of Bank Marketing* 36, no. 3 (2018): 410–22.

However, 43 percent are willing to switch to conventional banks for better interest rates. Indeed, the share of selecting conventional banks rises from 25 percent when interest rates are the same to 68 percent when conventional products offer a 2 percent better rate. Thus, Mostafa and Ibrahim in 2020<sup>18</sup> investigated the effect of intrinsic and extrinsic motivations represented in religious motivation and customer equity drivers, and switching costs, on customer retention to conventional banks and customer switching intention to Sharia banks in the context of the Egyptian banking sector. The results supported the positive effect of customer equity and switching cost on retention for conventional banks. Value equity directly affects customer intention. Moreover, switching costs significantly mediate the relationship between relationship equity and employee equity in meeting services and customer retention. Finally, religious motivation has a positive and significant impact on Sharia bank customer switching intention.

Based on the fundamental relational marketing for organizations, especially in the service industry, understanding the main drivers of customer retention (CR) and switching intention (SI) is crucial. Previous research, such as Miftah Barid et al in 2021, Bukhari in 2019, Shuang Cheng et al in 2019, Mostafa and Ibrahim in 2020 and Ali Rama in 2017<sup>19</sup>, suggests that customer equity (CE) and Sharia compliance (SC) can act as extrinsic and intrinsic motivators, respectively. Both can influence customer retention (CR) and switching intention (SI) in the Islamic banking industry. Although the relationship

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<sup>18</sup> Mostafa and Ibrahim, "The Effects of Customer Equity and Religious Motivation on Customer Retention and Switching Intention: A Study of the Egyptian Banking Sector." *Journal of Islamic Marketing* vol11.no.6 (2020).

<sup>19</sup> Miftah Barid et al., "Exploring Islamic Banking Switching Intention," *El Dinar* 9, no. 1 (2021): 33–43; Bukhari, "Switching Behavior of Customers from Conventional to Islamic Banking", *Jinnah Business & Economics Journal* (2019); Shuang Cheng et al., "An Empirical Investigation of Users' Voluntary Switching Intention for Mobile Personal Cloud Storage Services Based on the Push-Pull-Mooring Framework," *Computers in Human Behavior* 92, no. 1 (2019): 198–215; Mostafa and Ibrahim, "The Effects of Customer Equity and Religious Motivation on Customer Retention and Switching Intention: A Study of the Egyptian Banking Sector" *Journal of Islamic Marketing* vol11.no.6 (2020); Ali Rama, "An Exploration of Customers' Switching Behavior in Islamic Banking Industry," *Journal of Islamic Monetary Economics and Finance* 2, no. 2 (2017): 251–86.

between switching cost (SC) and customer retention (CR) has been demonstrated in the literature, the mediating role of switching cost (SC) is often overlooked in marketing literature<sup>20</sup>. Specifically, the mediating role of switching cost (SC) in the relationship between extrinsic and intrinsic Sharia compliance (SC) and customer retention (CR) and switching intention (SI) has yet to be explored. Furthermore, the relationship between customer equity (CE) and Sharia compliance (SC) and switching cost (SC) has not been discussed in marketing literature. Therefore, the authors aim to encompass all these relationships within one framework.

## **Theoretical Background**

### **Theory of Planned Behavior (TPB)**

The Theory of Planned Behavior (TPB) is a theory developed by Ajzen & Fishbein (1973) to complement the Theory of Reasoned Action in predicting individual behavior. This theory supplements the previous one by adding behavior control as a factor influencing individual intentions and subjective attitudes and norms<sup>21</sup>. In this TPB, an individual's behavior is depicted as a state that is consciously considered. This means that a person's behavior can be performed with planning or thoughtful consideration<sup>22</sup>. This theory is based on the notion that humans are thinking creatures and can act on the information that comes to them and the consequences if they behave with that information.

According to this theory, the most determining factor in behavior is the intention to behave. Intention is depicted as motivation,

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<sup>20</sup> Vu Minh Ngo et al., "The Mediating Effects of Switching Costs on the Relationship between Service Quality, Customer Satisfaction and Customer Loyalty: A Study in Retail Banking Industry in Vietnam," *International Journal of Supply Chain Management* 8, no. 2 (2019): 389–93.

<sup>21</sup> Ajzen, "Attitudinal vs. Normative Messages: An Investigation of the Differential Effects of Persuasive Communications on Behavior."

<sup>22</sup> Ajzen, "The Theory of Planned Behavior: Frequently Asked Questions."

which significantly contributes to displaying behavior<sup>23</sup>. The greater the intention to behave, the greater the likelihood of successfully doing so. Intention is an indicator of how seriously someone is in displaying a behavior. Generally, if someone desires to perform a behavior, there will be a tendency to do so<sup>24</sup>. Intention to behave can be described as a depiction of behavior that emerges from an individual if controlled, or it can be said that the individual considers whether to do it or not<sup>25</sup>.

The Theory of Planned Behavior has three variables, first, attitude, which is the level at which someone has a favorable or unfavorable judgment of behavior. Second, social factors often referred to as subjective norms, which are things that refer to the decision to accept social pressure to perform or not perform certain behaviors. Third, behavioral control or the level of feeling refers to the ease or difficulty perceived in performing behavior and reflects past experiences and how to anticipate these obstacles<sup>26</sup>.

## Customer Switching Behavior

Customer switching behavior occurs when customers switch products or services in favor of competitors<sup>27</sup>. Customer switching as customers abandoning one service provider for another<sup>28</sup>. In the field of marketing and microeconomics, customer switching behavior is considered a growing research area. Many researchers have studied the

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<sup>23</sup> Mohamed Albaity and Mahfuzur Rahman, "The Intention to Use Islamic Banking: An Exploratory Study to Measure Islamic Financial Literacy," *International Journal of Emerging Markets* 14, no. 5 (2019): 988–1012.

<sup>24</sup> Naeem Akhtar et al., "How Attitude Ambivalence from Conflicting Online Hotel Reviews Affects Consumers' Behavioural Responses: The Moderating Role of Dialecticism☆," *Journal of Hospitality and Tourism Management* 41, no. September (2019): 28–40.

<sup>25</sup> Ajzen, "Attitudinal vs. Normative Messages: An Investigation of the Differential Effects of Persuasive Communications on Behavior" *Sociometry*, vol.34 no.2 (1971).

<sup>26</sup> Ajzen, "The Theory of Planned Behavior: Frequently Asked Questions," *Human Behavior and Emerging Technologies* vo.2 no.4 (2020).

<sup>27</sup> Susan M. Keaveney, "Customer Switching Behavior in Service Industries: An Exploratory Study," *Journal of Marketing* 59, no. 2 (1995): 71–71.

<sup>28</sup> Gerrard, P., & Cunningham, J. B. (2004). Consumer switching behavior in the Asian banking market. *Journal of Services Marketing*, 18(3), 215–223.

factors influencing customer switching behavior in different industries and environments. Keaveney in 1995 was the first to generalize a model encompassing many factors believed to influence customers switching to different service providers<sup>29</sup>. He studied the concept of switching behavior based on data collected from 45 varied services including travel agencies, hotels, airlines, restaurants, and banks. Keaveney's model includes eight factors influencing switching services: price; inconvenience; core service failure; service experienced failure; employee response to service failure; attraction by competitors; ethical issues and unintentional switching; and incidents rarely mentioned.

Gerrard and Cunningham in 2004 evaluated the Keaveney's model while investigating customer switching behavior in banks in Singapore. Although their findings matched Keaveney's, they found that some changes were needed in the Keaveney model to understand switching between banks. Out of the eight Keaveney factors, two have been re-titled and two have been excluded. First, the researchers argued that the titles of the third and fourth factors should be changed to service, failure, and behavior, attitude, or staff knowledge that cannot be accepted. They stated that the term stone is more effective because service failure is service failure regardless of whether it occurs in core or non-core services. They also found that attitude, behavior, or staff knowledge that cannot be accepted better describes the various reasons included in this study. Second, the researchers felt that it is unlikely that respondents would switch due to unethical behavior or staff response to service failure because Singapore takes a strong stance against corruption, and local banks hire and train customer service officers<sup>30</sup>.

Therefore, both factors have been discarded, and if they were to be mentioned by respondents, they would be recorded under the section of rare and unintended switching factors. In addition to the changes mentioned above suggested by Gerrard & Cunningham,

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<sup>29</sup> Keaveney, S. M. (1995). Customer Switching Behavior in Service Industries: An Exploratory Study. *Journal of Marketing*, 59(2), 71–71.

<sup>30</sup> Philip Gerrard and J. Barton Cunningham, "Consumer Switching Behavior in the Asian Banking Market," *Journal of Services Marketing* 18, no. 3 (2004): 215–23.

(2004), they have many other contributions to the literature. They developed a simplified weighting method for various switching factors by asking respondents to provide weights for each event.

### **Switching Intention**

Switching intention refers to consumer migration from one service to another<sup>31</sup>. Switching intention is a signal of relationship termination between customers and current services, either wholly or partially<sup>32</sup>. Partial transitions allow customers to maintain relationships with existing companies while adopting new behaviors. While it may make sense to assume that customers can be influenced to switch services due to a single event, many researchers suggest that switching can also occur due to various issues faced<sup>33</sup>.

In the case of Islamic banking services, Barid in 2021 and Jabeen et al in 2015<sup>34</sup> studied the relationship between perceived customer value, relationship quality, and switching intention among Islamic banking customers. The result proved that perceived customer value significantly influences the level of customer satisfaction, which then affects the intention to switch. The relationship between perceived customer value and the level of customer satisfaction is positive, while the relationship between the level of customer satisfaction and switching intention is negative. In Indonesia, Abduh in 2012, Briliana and Mursiot in 2017<sup>35</sup> conducted field surveys on Islamic

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<sup>31</sup> H. S. Bansal, “‘Migrating’ to New Service Providers: Toward a Unifying Framework of Consumers’ Switching Behaviors,” *Journal of the Academy of Marketing Science* 33, no. 1 (2005): 96–115.

<sup>32</sup> Galuh Tri Pambekti et al., “Muslim Women Switching Intention to Halal Cosmetic: Push-Pull-Mooring Model Application,” *Journal of Islamic Monetary Economics and Finance* 9, no. 2 (2023): 337–60.

<sup>33</sup> Ghamry and Shamma, “Factors Influencing Customer Switching Behavior in Islamic Banks: Evidence from Kuwait.”

<sup>34</sup> Barid et al., “Exploring Islamic Banking Switching Intention”, *El Dinal* Vo.9 No.1 (2021); Jabeen et al., “Switching Intentions: A Case of Saudi Arabian Hypermarkets.” *International Journal of Economics and Financial Issues* Vo.5 (2015)

<sup>35</sup> Muhamad Abduh et al., “Customer Satisfaction and Switching Behavior in Islamic Banking: Evidence from Indonesia,” *School of Doctoral Studies (European Union)*

finance customers to understand switching behavior. Using factor analysis exploration, the results showed that there are five factors underlying customer switching behavior in Islamic banking services, namely: customer-bank relationship, Sharia compliance issues, service quality, switching costs, and perceived risks by customers. Moreover, discriminant analysis indicates that the intention to retain significantly influences customer switching behavior in Islamic banks.

### **Customer Retention**

Customer retention is the action taken by companies to retain customers to continue using their products and services. Surprisingly, not all businesses prioritize customer retention. Customer retention is the action taken by companies to retain customers to continue using their products and services<sup>36</sup>. Many companies spend time and money acquiring new customers because it is seen as an easy way to increase revenue<sup>37</sup>. However, retaining existing customers requires less time and is more effective. It is easier to sell to customers who are already familiar with your brand than to spend time marketing while looking for new customers<sup>38</sup>.

Once the company focuses on customer retention, it will realize that this strategy can be more effective. Existing customers are familiar with brand and have an interest in those products. Therefore, retaining these customers is a key strategy for sustainable growth<sup>39</sup>. In fact, the cost of acquiring new customers can be up to five times higher than

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*Journal*, (2012): 209–15; Vita Briliana and Nurwanti Mursito, “Exploring Antecedents and Consequences of Indonesian Muslim Youths’ Attitude towards Halal Cosmetic Products: A Case Study in Jakarta,” *Asia Pacific Management Review* 22, no. 4 (2017): 176–84.

<sup>36</sup> Manoj Edward and Sunil Sahadev, “Role of Switching Costs in the Service Quality, Perceived Value, Customer Satisfaction and Customer Retention Linkage,” *Asia Pacific Journal of Marketing and Logistics* 23, no. 3 (2011): 327–45.

<sup>37</sup> Thomas A. Burnham et al., “Consumer Switching Costs: A Typology, Antecedents, and Consequences,” *Journal of the Academy of Marketing Science* 31, no. 2 (2003): 109–26.

<sup>38</sup> Pramono Hari Adi et al., “Customer Satisfaction As The Moderating Variable Of Customer Loyalty,” *Jurnal Akuntansi, Manajemen Dan Ekonomi Vol. 21, No. 1, 2019, Pp. 13-22* 21, no. 1 (2019).

<sup>39</sup> Pambekti et al., “Muslim Women Switching Intention To Halal Cosmetic.”

retaining existing customers. Additionally, a 5% increase in customer retention alone can increase profits by up to 125%<sup>40</sup>.

### Switching Cost

Researchers add situational variables, namely switching costs, as moderating variables that can affect the relationship between price and service quality for customer switching intentions<sup>41</sup>. In addition to price and service quality, factors that can directly influence customer switching intentions are largely determined by other situational factors that can affect the relationship between the two factors with switching intentions<sup>42</sup>. Switching costs have been used as moderating variables by previous studies linking service quality with loyalty and switching intentions. These costs can be losses in cognitive, financial, social, and psychological aspects<sup>43</sup>. This is positively related to customer loyalty. Customers with high loyalty will be more tolerant of mistakes made by service providers and will pay more to continue using products and services from the company<sup>44</sup>.

In recent studies, switching costs have been considered a new approach to satisfaction-loyalty relationships<sup>45</sup>. Specifically, switching

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<sup>40</sup> Mostafa and Ibrahim, "The Effects of Customer Equity and Religious Motivation on Customer Retention and Switching Intention: A Study of the Egyptian Banking Sector."

<sup>41</sup> Pei-yu Chen and Lorin M. Hitt, "Measuring Switching Costs and the Determinants of Customers Retention in Inte ...," *Information Systems Research* 13, no. 3 (2002): 255–74; Ngo et al., "The Mediating Effects of Switching Costs on the Relationship between Service Quality, Customer Satisfaction and Customer Loyalty: A Study in Retail Banking Industry in Vietnam"; Muhammad Zakiy, *The Moderating Effect Of Switching Cost On The Influence Of Price And Service Quality Towards Switching Intention*, 353, no. IcoSIHESS (2019): 161–67.

<sup>42</sup> Pambekti et al., "Muslim Women Switching Intention To Halal Cosmetic."

<sup>43</sup> Burnham et al., "Consumer Switching Costs: A Typology, Antecedents, and Consequences."

<sup>44</sup> Edward and Sahadev, "Role of Switching Costs in the Service Quality, Perceived Value, Customer Satisfaction and Customer Retention Linkage"; Saad A. Metawa and Mohammed Almosawi, "Banking Behavior of Islamic Bank Customers: Perspectives and Implications," *International Journal of Bank Marketing* 16, no. 7 (1998): 299–313; Ngo et al., "The Mediating Effects of Switching Costs on the Relationship between Service Quality, Customer Satisfaction and Customer Loyalty: A Study in Retail Banking Industry in Vietnam."

<sup>45</sup> Pambekti et al., "Muslim Women Switching Intention To Halal Cosmetic."

costs have been found to have mediating capabilities to transfer satisfaction into loyalty<sup>46</sup>. Therefore, in this study, switching costs and their mediating effects in the relationship between customer satisfaction and customer loyalty are the main subjects of investigation.

### **Relationship Between Customer Equity, Switching Costs, and Customer Retention**

Organizations are considering customer equity as a marketing goal that helps them maintain strong long-term relationships with their customers and continue competitive advantages<sup>47</sup>. Customers are considered the most valuable intangible assets of organizations. Therefore, customer equity, namely, value equity; brand equity; and relationship equity, developed and introduced by, represents the understanding of customer retention and switching intention. Considering the importance of employees to marketing strength, it need to explore the relationship between customers and employees and forms of service encounters. The current study outlines the importance of customer contact services in provider attitudes and behaviors in shaping customer perceptions and interpretations during service encounters<sup>48</sup>.

The relationship between customer equity, switching costs, and customer retention, there is a consensus among authors that customer equity includes value equity, brand equity, and relationship equity<sup>49</sup>. Literature states that these customer equity dimensions function

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<sup>46</sup> Ngo et al., "The Mediating Effects of Switching Costs on the Relationship between Service Quality, Customer Satisfaction and Customer Loyalty: A Study in Retail Banking Industry in Vietnam."

<sup>47</sup> Nur Asnawi et al., "The Role of Service Quality within Indonesian Customers Satisfaction and Loyalty and Its Impact on Islamic Banks," *Journal of Islamic Marketing* 11, no. 1 (2020): 192–212; Ellen Garbarino and Mark S. Johnson, "The Different Roles of Satisfaction, Trust, and Commitment in Customer Relationships," *Journal of Marketing* 63, no. 2 (1999): 70–87.

<sup>48</sup> Ghamry and Shamma, "Factors Influencing Customer Switching Behavior in Islamic Banks: Evidence from Kuwait."

<sup>49</sup> Katherine N. Lemon et al., "What Drives Customer Equity," *Marketing Management, American Marketing Association* 1, no. 1 (2001).

individually and interdependently<sup>50</sup>. The availability of value equity sub-dimensions, quality, convenience, and price fairness, will help customers develop high perceptions of value equity when purchasing products and/or using services. Then, companies can leverage these high perceptions by providing switching costs (i.e., financial, procedural, and psychological) as barriers in facing customers who intend to switch, which in turn affects customers' intentions to stay with their service providers<sup>51</sup>.

The literature indicates that relationship equity affects customer switching costs and loyalty intentions<sup>52</sup>. Relationship equity was found to be significantly and positively related to customer satisfaction; and behavioral intention. Furthermore, a significant positive effect was found between relationship equity and customer loyalty mediated by trust in the B2B context. Meanwhile, a non-significant relationship between relationship equity and brand purchase intention<sup>53</sup>. By increasing intention, banks can intensify customer switching costs to other providers. As a result, the higher the relationship equity, the higher the tendency for customers to continue using existing service providers (i.e., conventional banks)<sup>54</sup>.

On the other hand, Service Encounter Employees Equity (SEEE) provides value to customers by focusing on building and

<sup>50</sup> Ali Hawas Alharbi et al., "The Impact of Customer Satisfaction and Loyalty on E-Marketing: Moderating Effect of Perceived Value," *Journal of Marketing and Consumer Research ( An International Peer-Reviewed Journal)*. Vol.46 (2018): 70–77; Mirza Wajahat and Abdul Mannan, *Munich Personal RePEc Archive The Impact of Marketing Mix and Customer Value on Customer Loyalty The Impact of Marketing Mix and Customer Value on Customer Loyalty*, no. 104683 (2020).

<sup>51</sup> Michael A. Jones et al., "The Positive and Negative Effects of Switching Costs on Relational Outcomes," *Journal of Service Research* 9, no. 4 (2007): 335–55; Paul Klempner, "The Competitiveness of Markets with Switching Costs," *The RAND Journal of Economics* 18, no. 1 (1987): 138–138; Frank E. Vogel and Samuel L. Hayes, "Islamic Law And Finance; Religion, Risk, And Return," *Journal of Law and Religion* 15, no. 1/2 (1998): 475–79.

<sup>52</sup> Adi et al., "Customer Satisfaction As The Moderating Variable Of Customer Loyalty."

<sup>53</sup> Won-Moo Hur et al., "Building Brand Loyalty through Managing Brand Community Commitment," *Management Decision* 49, no. 7 (2011): 1194–213.

<sup>54</sup> Rizaldi Yusuf et al., "Building Loyalty in Islamic Banking Relationship: A Multiple Mediation Approach Empirically in Indonesia," *Journal of Financial Services Marketing* 28, no. 2 (2023): 306–20.

maintaining strong and deep relationships. SEEE creates special bonds with customers where frontline employees are not only order takers but also order makers. Employees in service encounters are the people who shape the moments of truth in every service encounter. They play a crucial role for consumers and are highly valued in service-oriented banking industries. Literature shows that service encounter failures, among other factors, are determinants of customer switching behavior. These findings contribute to customer bank switching decisions, a case study in Asia. Moreover, it leads customers to switch to competing service providers. Consequently, service encounter employee failure can increase customer switching behavior. Meanwhile, their success will definitely allow the bank to retain and retain its customers. Therefore, researchers formulate the hypotheses as follows:

H1. Customer equity has a positive influence on switching costs.

H2. Customer equity has a positive influence on conventional bank customer retention.

### **Relationship Between Switching Costs, Customer Retention, and Switching Intention**

Switching costs have several conceptualizations, for instance, switching costs involve both monetary and non-monetary aspects for customers when deciding between switching from an existing service provider or staying put<sup>55</sup>. In other words, switching costs represent what customers will leave behind or forfeit when switching from one service provider to another. Switching costs are defined as customer's perceptions of the time, money, and effort associated with changing service providers. Meanwhile, introduced a comprehensive conceptualization of switching costs that identified three types of switching costs: procedural (time and effort), financial, and relational (emotional discomfort). Switching costs are recognized as one of the fundamental drivers of customer retention in many service industries

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<sup>55</sup> Keaveney, S. M. (1995). Customer Switching Behavior in Service Industries: An Exploratory Study. *Journal of Marketing*, 59(2), 71–71.

such as telecommunications, banking, and retail and switching behavior<sup>56</sup>.

The literature describes a direct positive effect of switching costs on customer retention. It sometimes acts as a barrier in the face of customer's intentions to switch, regardless of the attractiveness of alternatives, apart from the level of customer satisfaction. Therefore, switching costs emerge as antecedents to customer switching intentions. However, in the present study, customers will not simply switch between similar banking providers. Instead, they will switch from conventional banks to Islamic banking<sup>57</sup>. Therefore, the authors anticipate a negative relationship between switching costs and switching intentions.

Furthermore, the literature indicates that switching costs act as an intervention or moderating variable. For example, in studies stating that switching costs mediate the relationship between customer satisfaction and customer retention<sup>58</sup>, while switching costs also moderate the relationship between perceived customer value and customer loyalty and brand equity and purchase intention<sup>59</sup>. Therefore, the following hypotheses are articulated:

H3a. Switching costs have a negative impact on switching intention for Islamic banks.

H3b. Switching costs have a positive impact on customer retention for conventional banks.

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<sup>56</sup> Burnham, T. A., Frels, J. K., & Mahajan, V. (2003). Consumer switching costs: A typology, antecedents, and consequences. *Journal of the Academy of Marketing Science*, 31(2), 109–126.

<sup>57</sup> Chang, H. H., Wong, K. H., & Li, S. Y. (2017). Applying push-pull-mooring to investigate channel switching behaviors: M-shopping self-efficacy and switching costs as moderators. *Electronic Commerce Research and Applications*, 24, 50–67.

<sup>58</sup> Indana, R., & Pambekti, G. T. (2022). Does Financial Attitude Mediate Relationship Between Islamic Financial Knowledge, Internal Locus of Control and Islamic Financial Behavior? *Jurnal Ilmiah Ekonomi Islam*, 8(3), 3599.

<sup>59</sup> Jones, M. A., Reynolds, K. E., Mothersbaugh, D. L., & Beatty, S. E. (2007). The positive and negative effects of switching costs on relational outcomes. *Journal of Service Research*, 9(4), 335–355.

H3c. Switching costs partially mediate the relationship between customer equity drivers and customer retention.

### **Relationship Between Shariah Compliance, Switching Costs, and Switching Intention**

Being a Muslim-majority country, Indonesian society has shown a good interest in Islamic banking, as reflected in statistics . According to Mark in 2010<sup>60</sup>, one of the earliest researchers to study selection criteria influencing customers to choose Islamic banking, their criteria include reputation, efficient service, and religious motivation. Islamic banking serves the needs of customers who prefer to comply with Islamic law (*Sharia*), which prohibits dealing with interest or usury, whether paying or receiving<sup>61</sup>. The authors explain that for this reason, Islamic banks do not borrow or lend money and therefore structure their products in a way that does not involve interest or any other prohibited financial commitments. Furthermore, they argue that Islamic banks operate on a profit-and-loss-sharing basis rather than interest-based operations. In Muslim countries, such as Indonesia, the selection of customers for Islamic banks may be driven by their efforts to adhere to Islamic Sharia<sup>62</sup>.

Most Islamic banking customers are committed to the principles of Islamic law (*Sharia*). They may decide to abandon products or services if they suspect that they do not comply with *Sharia* principles<sup>63</sup>. Asnawi in 2020<sup>64</sup> urge Islamic banking to meet the needs of

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<sup>60</sup> Mark Loo, "Attitudes and Perceptions towards Islamic Banking among Muslims and Non-Muslims in Malaysia: Implications for Marketing to Baby Boomers and X-Generation," *International Journal of Arts and Sciences* 3, no. 13 (2010): 453–85.

<sup>61</sup> Mabid Ali Al-Jarhi, "An Economic Theory of Islamic Finance," *ISRA International Journal of Islamic Finance* 9, no. 2 (2017): 117–32; Galuh Tri Pambekti et al., "Roscas Through The Islamic Community: An Alternative To Enhancing Entrepreneurship And Wealth," *Journal of Islamic Monetary Economics and Finance* 8 (2022): 81–106.

<sup>62</sup> Yusufiarto et al., "Building Loyalty in Islamic Banking Relationship."

<sup>63</sup> Asnawi et al., "The Role of Service Quality within Indonesian Customers Satisfaction and Loyalty and Its Impact on Islamic Banks", *Journal of Islamic Marketing* vo.11 no.1 (2020)

<sup>64</sup> Ghamry and Shamma, "Factors Influencing Customer Switching Behavior in Islamic Banks: Evidence from Kuwait."

customers who prefer to follow Sharia principles, which prohibit dealing with interest or usury, whether paying or receiving. In general, Muslim customers' preferences and consumption decisions about products and/or services are guided by what is halal or permissible and what is haram or forbidden<sup>65</sup>. Several literature highlights that intrinsically motivated customers seek peace of mind when formulating their own perceptions of a product or service regardless of the costs incurred in terms of time, money, and effort. Thus, we propose the following hypothesis:

H4. Shariah Compliance has a significant negative influence on switching costs.

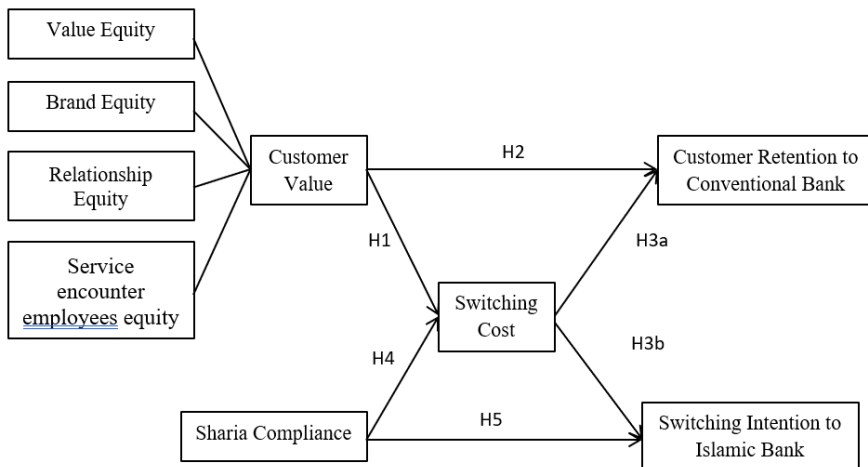


Figure 1. Conceptual Framework

## Relationship Between Shariah Compliance and Switching Intention

Previous experts have studied and conducted in-depth research on customer switching intentions and behaviors, especially in developed countries. However, unfortunately, little is known about the switching intention behavior of Muslim customers, who number 1.8

<sup>65</sup> Sazelin Arif and Safiah Sidek, "Application of Halalan Tayyiban in the Standard Reference for Determining Malaysian Halal Food," *Asian Social Science* 11, no. 17 (2015): 116–29.

billion worldwide, particularly in developing countries<sup>66</sup>. Religious beliefs, which are always associated with Shariah compliance, are widely regarded as predictors of Muslim behavior. revealed that 66 percent of consumers switch brands that do not identify with their identity. Furthermore, the Pew Forum (2012) affirmed that 70 percent of Americans' daily behaviors are influenced by their religious beliefs. In line with this, the current study anticipates at least the same percentage or even higher in Islamic countries such as Egypt.

The literature highlights that Shariah compliance influences customer switching behavior, switching intention, intention to use Islamic personal financing, intention to purchase halal-labeled products, and bank selection decisions<sup>67</sup>. state that many countries tend to add Islamic slogans to the names of banks when these banks start operating separately and competing with traditional ones. Therefore, the formulated hypothesis is:

H5. Shariah compliance has a significant positive impact on switching intention in Islamic banks.

## Methodology

The current study's population comprises all conventional bank customers in Indonesia. Therefore, the sampling unit is individual customers of conventional banks. Structural Equation Model (SEM), the ideal sample size ratio to parameters is 20:1<sup>68</sup>. Thus, in the current study, the total number of model parameters requiring statistical estimation is 8, so the minimum ideal sample size is 20 x 8 or N = 160. However, considering the population size exceeds 500,000 bank customers, at a 95 percent confidence level and 5 percent margin of

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<sup>66</sup> Saeed and Azmi, "A Cross-Cultural Study of Staying Reasons of American Brands: Analysis of Millennial Muslim Consumers." *Journal of Islamic Marketing* Vo.10 no.1 (2019)

<sup>67</sup> Biancone et al., "Crowdfunding and Fintech: Business Model Sharia Compliant"; Saeed and Azmi, "A Cross-Cultural Study of Staying Reasons of American Brands: Analysis of Millennial Muslim Consumers."

<sup>68</sup> Mostafa and Ibrahim, "The Effects of Customer Equity and Religious Motivation on Customer Retention and Switching Intention: A Study of the Egyptian Banking Sector."

error, the optimal sample size equals 384 customers. This study used purposive sampling as sampling technique with criteria, included shariah banks customer or conventional bank customer that have financial literacy from any resources. This criteria inline with research by Indana and Pambekti in 2022<sup>69</sup>. Cross-sectional data were collected from 384 conventional bank customers in Indonesia, using random sampling. A total of 273 complete questionnaires were targeted to be obtained, providing a response rate of 71 percent.

### **Operational Variables**

Following a comprehensive review of relevant literature, a self-administered structured questionnaire will be developed as the instrument in this study. All multi-dimensional constructs will be measured using a five-point Likert scale ranging from one "strongly disagree" to five "strongly agree." The questionnaire has been pre-tested to ensure understanding and clarity<sup>70</sup>. Therefore, based on feedback from several items, particularly in the Shariah compliance dimension, modifications will be made. The dimensions used to measure customer equity—value equity, brand equity, and relationship equity—are adapted from<sup>71</sup>. Furthermore, this study explicitly adds a fourth dimension, Service Encounter Employees Equity (SEEE)<sup>72</sup>.

Additionally, the dimensions of switching costs—financial, procedural, and psychological—are drawn from studies by Burnham et al in 2003<sup>73</sup> and Mostafa and Ibrahim in 2020. The Shariah compliance scale is further adapted and modified to align with the banking culture of customers in Indonesia. This scale includes non-interest, compliance

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<sup>69</sup> Rifaatul Indana and Galuh Tri Pambekti, "Does Financial Attitude Mediate Relationship Between Islamic Financial Knowledge, Internal Locus of Control and Islamic Financial Behavior?," *Jurnal Ilmiah Ekonomi Islam* 8, no. 3 (2022): 3599.

<sup>70</sup> J. F. Hair et al., *Advanced Issues in Partial Least Squares Structural Equation Modelling* (Thousand Oaks, CA: Sage, 2018).

<sup>71</sup> Lemon et al., "What Drives Customer Equit."

<sup>72</sup> Mostafa and Ibrahim, "The Effects of Customer Equity and Religious Motivation on Customer Retention and Switching Intention: A Study of the Egyptian Banking Sector."

<sup>73</sup> Burnham et al., "Consumer Switching Costs: A Typology, Antecedents, and Consequences." *Journal of the Academy of Marketing Science* Vo.31 No.2 (2003)

with Shariah, use of Shariah advisory boards, and alignment with increased religious awareness. Finally, customer retention with conventional banks and switching intention to Shariah banks will be measured using a binary scale. Based on the literature review results, the indicator variables that can be identified are as follows on Table 1.

Table 1  
Indicator Variables

Code	Variable Indicators	The description of Statement Questionnaire	Scale
<b>Variable: Customer Value</b>			
CUV1	Convenience of Service	Sharia Bank provides convenient services for its customers	Linkert
CUV2	Price Quote	Sharia Bank provides attractive price offers for its customers	Linkert
CUV3	Logo Identification	I easily identify Islamic banks through their logos	Linkert
CUV4	<i>Islamic Value</i>	Sharia bank services have cash characteristics of religious value	Linkert
CUV5	Communicative	Customer Service at Sharia Banks is very friendly and communicative with customers	Linkert
CUV6	Familiarity relationship	Customer Service at Sharia Banks maintains familiarity with customers	Linkert
CUV7	Give greetings	Security at Sharia banks always gives greetings and greetings to customers	Linkert
CUV8	Readiness to serve at the beginning	Security at Islamic banks helps customers prepare transaction filling forms	Linkert
<b>Variable: Sharia Compliance</b>			
SCOM1	Avoiding Riba, Gharar, Maysir	In collecting and distributing funds, Islamic banks avoid elements of usury, ghara and maysir	Linkert
SCOM2	Avoiding non-Halal businesses	Sharia banks do not cooperate with non-Halal businesses	Linkert

<b>SCOM3</b>	DPS roles	The role of the Sharia Cloud Board is very important for the operations of Sharia Banks	Linkert
<b>SCOM4</b>	Trust Function	Sharia Bank is mandated in maintaining public capital	Linkert
<b>SCOM5</b>	Maslahah Function	The products offered by Sharia Bank provide benefits to the wider community	Linkert
<b>Variable: Switching Cost</b>			
<b>SWC1</b>	Additional charges	Customers need additional fees when moving from Conventional Banks to Sharia Banks	Linkert
<b>SWC2</b>	The Challenge: More expensive prices	Islamic banks offer prices that are slightly more expensive than conventional banks	Linkert
<b>SWC3</b>	New account opening fee	Opening an account at a Sharia bank is quite expensive	Linkert
<b>SWC4</b>	The challenge of more expensive admin fees	Admin fees at Islamic banks are quite expensive	Linkert
<b>Variable: Interest Moving to Sharia Banks</b>			
<b>SWIN1</b>	Interest	I am interested in changing accounts to Sharia Bank	Linkert
<b>SWIN2</b>	Belief	I believe Islamic banks are able to maintain sharia principles	Linkert
<b>SWIN3</b>	Stability	I will switch accounts to Islamic banks even though it is a bit more expensive than conventional banks	Linkert
<b>SWIN4</b>	Security	I feel safe when I become a Sharia bank customer	Linkert
<b>SWIN5</b>	Religiosity	I feel that I have maintained my religiosity when I was a customer of a Sharia bank	Linkert
<b>Variable: Holding Back from Moving to Sharia Banks</b>			
<b>SWR1</b>	Customer Loyalty	It doesn't matter to me to be a customer of a conventional bank	Linkert
<b>SWR2</b>	Awareness	For me, Islamic banks and conventional banks are no different	Linkert

<b>SWR3</b>	Completeness of Facilities	Conventional banks provide complete facilities so that I will remain a customer	Linkert
<b>SWR4</b>	Profit oriented	I am sure that conventional banks will provide a big profit for me	Linkert
<b>SWR6</b>	Comfort	I feel comfortable using the services of a Conventional Bank	Linkert
<b>SWR7</b>	Belief	Conventional Banks are bigger than Islamic Banks, so I am sure to save and invest in Conventional Banks	Linkert

### **Data Collection Results Using Online Questionnaires**

The main objective of this research is to empirically demonstrate the influence of Customer Value, Sharia Compliance variables on Switching Behavior Intention and Retention, with the moderating variable of Switching Cost. The perceived results of the respondents filled out the online questionnaire via Google Form are presented in Table 2. Based on the data collection results, it shows that the respondents' gender is predominantly male, with a total of 174 or 61.7%, while female respondents amount to 108 or 38.3%. This indicates that the majority of respondents are male. A total of 282 respondents filled out the questionnaire online through Google Form. In terms of age categories, respondents aged between 17 and 25 years old are 41 or 14.5%, respondents aged between 26 and 34 years old are 178 or 63.1%, while respondents aged between 35 and 43 years old are 63 or 22.4%. This shows that the majority of respondents fall into the age range of 26-34 years old, which includes respondents from Generation Z and Millennials.

Regarding the respondent's marital status, 102 or 36.2% are married, while 180 or 63.8% are unmarried. This indicates that the majority of respondents are unmarried. In terms of education level, respondents with a Junior High School education amount to 60 or 21.3%, those with a Senior High School education are 80 or 28.4%, those with a Diploma education (D1, D2, D3) are 30 or 10.6%, those

with a Bachelor's degree (S1) are 102 or 36.5%, and those with a Master's degree (S2) are 10 or 3.5%. This shows that the majority of respondents have a Bachelor's degree (S1), likely due to individuals with S1-level education having a high level of financial literacy.

In terms of occupation, respondents categorized as Students/Students are 24 or 8.6%, Civil Servants (PNS) are 60 or 21.3%, Private sector employees are 96 or 34%, Entrepreneurs are 28 or 11.3%, Farmers are 10 or 9.9%, and Laborers are 42 or 14.9%. This indicates that the majority of respondents fall into the Private sector category, typically office workers who predominantly use banking transactions. The total number of respondents is 282 who filled out the questionnaire online via Google Form.

Table 2  
Descriptive Statistics of Respondents

Gender	Frequency	Percentage(%)
Male	174	61,7%
Female	108	38,3%
<b>Total</b>	282	100%
Age Category	Frequency	Percentage(%)
17 – 25 Years	41	14,5%
26 – 34 Years	178	63,1%
35 – 43 Years	63	22,4%
<b>Total</b>	282	100%
Marital Status	Frequency	Percentage(%)
Marry	102	36,2%
Single	180	63,8%
<b>Total</b>	282	100%
Education Level	Frequency	Percentage(%)
Junior High School / Equivalent	60	21,3%
High School/Equivalent	80	28,4%
Diploma (D1,D2,D3)	30	10,6%
S1	102	36,2%
S2	10	3,5%
<b>Total</b>	282	100%

## Result and Analysis

The convergent validity test can be determined by examining the loading factor values of each indicator of a variable. Each indicator can be considered to meet the convergent validity test if it has a loading factor value  $> 0.6$ . From the test results, it is known that each indicator has a value greater than  $> 0.6$ , indicating that all indicator variables are valid<sup>74</sup>. Additionally, in the convergent validity test, the Average Variance Extracted (AVE) values are also examined, with a criterion of  $> 0.5$  indicating satisfactory validity<sup>75</sup>. The results can be seen in the following Table 4.

Thus, reliability testing in PLS-SEM analysis is measured using two methods, namely by examining the values of composite reliability and Cronbach's alpha for each variable<sup>76</sup>. The data can be considered to have high reliability if the composite reliability and Cronbach's alpha values are  $> 0.7$ <sup>77</sup>. The results can be seen in Table 5.

Table 3  
Loading Factor Value

Code	Variable Indicators	Loading Factor	Validity
Variable: Customer Value			
CUV1	Convenience of Service	0,643	Valid
CUV2	Price Quote	0,724	Valid
CUV3	Logo Identification	0,824	Valid
CUV4	<i>Islamic Value</i>	0,756	Valid
CUV5	Communicative	0,723	Valid
CUV6	Familiarity relationship	0,876	Valid
CUV7	Give greetings	0,974	Valid
CUV8	Readiness to serve at the beginning	0,857	Valid
Variable: Sharia Compliance			

<sup>74</sup> Hair et al., *Advanced Issues in Partial Least Squares Structural Equation Modelling*. Thousand Oaks, CA: Sage (2018)

<sup>75</sup> Hair et al., *Advanced Issues in Partial Least Squares Structural Equation Modelling*.

<sup>76</sup> Pambekti et al., "Muslim Women Switching Intention To Halal Cosmetic."

<sup>77</sup> Hair et al., *Advanced Issues in Partial Least Squares Structural Equation Modelling*.

SCOM1	Avoiding Riba, Gharar, Maysir	0,682	Valid
SCOM2	Avoiding non-Halal businesses	0,631	Valid
SCOM3	DPS roles	0,743	Valid
SCOM4	Trust Function	0,954	Valid
SCOM5	Maslahah Function	0,961	Valid
Variable: Switching Cost			
SWC1	Additional charges	0,986	Valid
SWC2	The Challenge: More expensive prices	0,945	Valid
SWC3	New account opening fee	0,912	Valid
SWC4	The challenge of more expensive admin fees	0,901	Valid
Variable: Switching Intention to Sharia Banks			
SWIN1	Interest	0,835	Valid
SWIN2	Belief	0,822	Valid
SWIN3	Stability	0,762	Valid
SWIN4	Security	0,744	Valid
SWIN5	Religiosity	0,699	Valid
Variable: Customer Retention to Conventional Banks			
SWR1	Customer Loyalty	0,729	Valid
SWR2	Awareness	0,697	Valid
SWR3	Completeness of Facilities	0,698	Valid
SWR4	Profit oriented	0,975	Valid
SWR6	Comfort	0,685	Valid
SWR7	Belief	0,975	Valid

Table 4  
Average Variance Extracted (AVE) Values

Variables	AVE Value	Result
Customer Value	0.633	Valid
Sharia Compliance	0.593	Valid
Switching Cost	0.624	Valid
Customer Retention	0.820	Valid
Switching Intention	0.758	Valid

Table 5  
Reliability Testing

Variables	Composite Reliability	Cronbach's Alpha	Result
Customer Value	0.887	0.841	Reliable

Sharia Compliance	0.892	0.859	Reliable
Switching Cost	0.798	0.872	Reliable
Customer Retention	0.773	0.931	Reliable
Switching Intention	0.905	0.901	Reliable

### Hypothesis Testing Result

The following are the results of hypothesis testing considering the P-value or the level of significance of the statistical test with the criterion  $P\text{-value} < 0.05$  is considered supported<sup>78</sup>. Meanwhile, the influence between variables is observed from the coefficient's magnitude and the negative or positive sign on the coefficient (see Table 6).

### Relationship Between Customer Value, Switching Costs, and Customer Retention

The research results indicate that Customer Value has a positive effect on Switching Costs, and Customer Value has a positive effect on Customer Retention. Statistically, the P-value for Customer Value on Switching Costs is 0.021, which meets the significance criterion. Additionally, the coefficient value of influence is 0.271. The influence of Customer Value on Customer Retention is indicated by a P-value of 0.001 and a coefficient value of 0.029. Therefore, these results lead to the conclusion that the first and second hypotheses are supported. The relationship between customer equity, switching costs, and customer retention shows consensus among researchers that customer equity includes value equity, brand equity, and relationship equity<sup>79</sup>. Literature states that these dimensions of customer equity function both individually and interdependently. The availability of sub-dimensions such as value equity, quality, convenience, and price fairness helps customers develop a high perception of value equity when purchasing products and/or using services. Subsequently, companies can leverage

<sup>78</sup> Hair et al., *Advanced Issues in Partial Least Squares Structural Equation Modelling*;

<sup>79</sup> Alharbi et al., "The Impact of Customer Satisfaction and Loyalty on E-Marketing: Moderating Effect of Perceived Value" *Journal of Marketing and Consumer Research* Vol.46 (2018)

this high perception by introducing switching costs (i.e., financial, procedural, and psychological) as barriers to customers intending to switch, which in turn influences their intention to stay with their service provider.

Table 6  
Hypothesis Testing Decision

	Hypothesis	Coefficient	P Value	Decision
H1	Customer Value → Switching Cost	0.271	0.021	Supported
H2	Customer Value → Customer Retention	0.029	0.001	Supported
H3a	Switching Cost → Switching Intention	-0.023	0.049	Supported
H3b	Switching Cost → Customer Retention	0.119	0.602	Not Supported
H3c	Customer Value → Switching Cost → Customer Retention	0.301	0.000	Supported
H4	Sharia Compliance → Switching Cost	0.521	0.024	Supported
H5	Sharia Compliance → Switching Intention	-0.018	0.079	Not Supported

Researchers report a significant positive relationship between perceived value equity and customer satisfaction<sup>80</sup>; customer loyalty<sup>81</sup>; intention loyalty<sup>82</sup>; purchase intention; and switching propensity. Additionally, Alharbi in 2018<sup>83</sup> reveal that value equity significantly influences customer loyalty mediated by trust in a business-to-business

<sup>80</sup> Trevor Alexander Smith, "The Role of Customer Personality in Satisfaction , Attitude-to-Brand and Loyalty in Mobile Services," *Spanish Journal of Marketing - ESIC, Emerald Publishing Limited* 24, no. 2 (2020): 155–75.

<sup>81</sup> Alharbi et al., "The Impact of Customer Satisfaction and Loyalty on E-Marketing: Moderating Effect of Perceived Value." *Journal of Marketing and Consumer Research* Vol.46 (2018)

<sup>82</sup> Adi et al., "Customer Satisfaction As The Moderating Variable Of Customer Loyalty."

<sup>83</sup> Ghamry and Shamma, "Factors Influencing Customer Switching Behavior in Islamic Banks: Evidence from Kuwait."

(B2B) context. Therefore, the higher the value equity in terms of quality, convenience, and higher price fairness, the higher the switching costs to other service providers. Consequently, there is a greater likelihood that consumers will remain with their current service providers, in the case of conventional banks.

### **The Relationship Between Switching Costs, Customer Retention, and Switching Intention**

In hypothesis three, first, statistically, it is evident that Switching Cost supports Switching Intention with a P Value of 0.049 and a coefficient of -0.023, thus supporting hypothesis H3a. This result indicates a negative relationship between Switching Cost and Switching Intention, meaning that higher Switching Costs lead to lower Switching Intention. It suggests that conventional bank customers are rational types who always consider the financial benefits and losses when switching to Islamic banks, which are perceived to be more expensive. Second, statistical results show that Switching Cost does not affect Customer Retention, as evidenced by the *P Value* of 0.602, which does not meet the significance criteria, hence H3b is rejected. Third, Switching Cost successfully mediates the positive influence of Customer Value on Customer Retention, as indicated by the P Value of 0.000 and a relatively high coefficient of 0.301; therefore, H3c is supported.

The research findings indicate that Switching Costs do not affect customer retention. However, Switching Costs are proven to mediate the positive relationship between customer value and customer retention. Literature describes the direct positive effect of switching costs on customer retention<sup>84</sup>. This sometimes acts as a barrier in facing customers' intention to switch; however, interesting alternatives exist

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<sup>84</sup> Burnham et al., "Consumer Switching Costs: A Typology, Antecedents, and Consequences"; Edward and Sahadev, "Role of Switching Costs in the Service Quality, Perceived Value, Customer Satisfaction and Customer Retention Linkage."

regardless of the level of customer satisfaction<sup>85</sup>. Therefore, switching costs appear as antecedents to customer switching intentions. However, in the current study, customers will not simply switch between similar banking providers. Instead, they will switch from conventional banks to Islamic banking<sup>86</sup>. Therefore, the authors anticipate a negative relationship between switching costs and switching intention.

Moreover, the literature provides compelling evidence that switching costs serve as interventions or moderating variables in customer behavior. For instance, previous research has revealed that switching costs play a mediating role between customer satisfaction and customer retention (Burnham et al., 2003; Edward & Sahadev, 2011). This suggests that when customers perceive high switching costs associated with changing service providers, they are more likely to remain loyal to their current provider, even if they are not entirely satisfied. Additionally, switching costs have been found to moderate the relationship between perceived customer value and various outcome variables, such as customer loyalty<sup>87</sup>; intention loyalty<sup>88</sup>; and purchase intention<sup>89</sup>. This indicates that the impact of perceived customer value on these outcomes may vary depending on the level of switching costs involved. For instance, customers more inclined to stay loyal to a brand or product if the perceived costs of switching to

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<sup>85</sup> Jones et al., "The Positive and Negative Effects of Switching Costs on Relational Outcomes."

<sup>86</sup> Hsin Hsin Chang et al., "Applying Push-Pull-Mooring to Investigate Channel Switching Behaviors: M-Shopping Self-Efficacy and Switching Costs as Moderators," *Electronic Commerce Research and Applications* 24 (2017): 50–67; Ghamry and Shamma, "Factors Influencing Customer Switching Behavior in Islamic Banks: Evidence from Kuwait"; Zakiy, *The Moderating Effect Of Switching Cost On The Influence Of Price And Service Quality Towards Switching Intention*.

<sup>87</sup> Alharbi et al., "The Impact of Customer Satisfaction and Loyalty on E-Marketing: Moderating Effect of Perceived Value."

<sup>88</sup> Adi et al., "Customer Satisfaction As The Moderating Variable Of Customer Loyalty."

<sup>89</sup> Ulun Akturan and Zehra Bozbay, "Attractiveness, Purchase Intention, and Willingness to Pay More for Global Brands: Evidence from Turkish Market," *Journal of Promotion Management* 24, no. 6 (2018): 737–54.

alternatives are high, regardless of their overall satisfaction with the current provider.

The successful mediation of switching costs in the relationship between customer value and customer retention, particularly within the context of conventional banks, underscores the intricate dynamics at play in consumer decision-making processes and the strategic implications for the banking industry. Customer value, in the banking sector, encompasses a myriad of factors ranging from the quality of services offered to the perceived trustworthiness and reliability of the institution<sup>90</sup>. When customers perceive high value in their banking relationship, they are more inclined to maintain their affiliation with the bank, leading to enhanced customer retention. This positive association between customer value and retention is well-documented in the literature and forms the basis of competitive advantage for banks striving to differentiate themselves in a crowded marketplace<sup>91</sup>.

However, the banking landscape is characterized by high levels of competition, with numerous institutions vying for customers' attention and loyalty. In such a scenario, customers tempted to explore alternative banking options that promise greater benefits or incentives. Yet, the decision to switch banks is not made lightly, as it entails various tangible and intangible costs collectively referred to as switching costs<sup>92</sup>. Switching costs in the banking context encompass financial penalties, time investments, and the psychological discomfort associated with changing banks<sup>93</sup>. For example, customers may incur fees for closing accounts, transferring funds, or adapting to new banking interfaces. Additionally, they may experience uncertainty or anxiety about the

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<sup>90</sup> Yusfiarto et al., "Building Loyalty in Islamic Banking Relationship."

<sup>91</sup> Waharudin, "The Effect of Islamic Marketing Ethics toward Customer Satisfaction, Trust and Loyalty to Islamic Banks."

<sup>92</sup> Burnham et al., "Consumer Switching Costs: A Typology, Antecedents, and Consequences."

<sup>93</sup> Ngo et al., "The Mediating Effects of Switching Costs on the Relationship between Service Quality, Customer Satisfaction and Customer Loyalty: A Study in Retail Banking Industry in Vietnam."

reliability of a new institution or the potential disruption to their financial routines.

In this context, switching costs act as a critical mediator, influencing the decision-making process and ultimately shaping customer retention behavior. While customers may perceive high value in the services offered by their current bank, the presence of substantial switching costs serves as a deterrent against defection. Customers weigh the benefits of staying with their current bank, driven by the perceived value they derive from the relationship, against the potential costs and inconveniences associated with switching. Moreover, switching costs are particularly potent in the banking sector due to the nature of financial transactions and the importance of trust and stability in customer relationships<sup>94</sup>. Customers are often reluctant to disrupt their financial arrangements or jeopardize their established rapport with their bank, especially when the perceived risks and uncertainties of switching outweigh the anticipated benefits<sup>95</sup>.

### **The Relationship Between Shariah Compliance, Switching Costs, and Switching Intention**

The research findings indicate that Shariah Compliance has a positive effect on Switching Costs, with a statistical p-value of 0.024 and an influence coefficient of 0.521. Meanwhile, Switching Costs do not influence Switching Intention with a statistical p-value of 0.079 and an influence coefficient of -0.518. Most Islamic banking customers are committed to the principles of Islamic law. They may decide to abandon products or services if they suspect that the products or services do not comply with Shariah principles. Shariah banks meet the needs of customers who prefer to follow Shariah principles that prohibit dealing with interest or usury. Generally, Muslim customer

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<sup>94</sup> Garbarino and Johnson, "The Different Roles of Satisfaction, Trust, and Commitment in Customer Relationships"; Zahir Osman and Ilham Sentosa, "Influence of Customer Satisfaction on Service Quality and Trust Relationship in Malaysian Rural Tourism," *Business and Management Quarterly Review* 4, no. 2 (2013): 12–25.

<sup>95</sup> Kaur and Arora, "Role of Perceived Risk in Online Banking and Its Impact on Behavioral Intention: Trust as a Moderator."

preferences and consumption decisions about products and/or services are guided by what is permissible or permissible, and what is forbidden<sup>96</sup>.

The research findings indicate that Shariah Compliance does not affect switching intention. Religious beliefs, which are always associated with Shariah Compliance, are widely considered predictors of Muslim behavior. Infact, 66 percent of consumers switch brands that do not identify with their identities. Literature highlights that Shariah compliance influences customer switching behavior, switching intention, intention to use Islamic personal finance, intention to buy halal-labeled products, and bank selection decisions<sup>97</sup>. Many countries tend to add Islamic slogans to bank names when these banks start operating separately and compete with traditional ones<sup>98</sup>.

On the other hand, the findings of this study also support other empirical findings that reveal that customers experience more price expectations in their banking decision-making process. The number and complexity of price expectations depend primarily on customer interests, particularly on price transparency, relative prices, and price-quality ratios, and these dimensions affect satisfaction and behavioral intentions<sup>99</sup>. Shariah banking customers in Indonesia are relatively awares of price transparency, have a relative mindset towards price differences, and consider price-quality ratios in their evaluations<sup>100</sup>. The study was conducted in the Indonesian Shariah banking industry;

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<sup>96</sup> Ghamry and Shamma, "Factors Influencing Customer Switching Behavior in Islamic Banks: Evidence from Kuwait."

<sup>97</sup> Albaity and Rahman, "The Intention to Use Islamic Banking: An Exploratory Study to Measure Islamic Financial Literacy"; Ahmad Jamal and Juwaidah Sharifuddin, "Perceived Value and Perceived Usefulness of Halal Labeling : The Role of Religion and Culture," *Journal of Business Research* 68, no. 5 (2015): 933–41.

<sup>98</sup> Mostafa and Ibrahim, "The Effects of Customer Equity and Religious Motivation on Customer Retention and Switching Intention: A Study of the Egyptian Banking Sector."

<sup>99</sup> Norazryana Mat Dawi et al., "The Influence Of Service Quality on Customer Satisfaction and Customer Behavioral Intentions by Moderating Role of Switching Barriers in Satellite Pay TV Market," *Economics & Sociology* 11, no. 4 (2018): 198–218.

<sup>100</sup> Abduh et al., "Customer Satisfaction and Switching Behavior in Islamic Banking : Evidence from Indonesia"; Asnawi et al., "The Role of Service Quality within Indonesian Customers Satisfaction and Loyalty and Its Impact on Islamic Banks"; Yusufarto et al., "Building Loyalty in Islamic Banking Relationship."

extension to other different countries may reveal differences in price complexity and implications for behavioral consequences. The results of this study enable bank practitioners to develop relevant pricing strategies to meet different customer price expectations in their decision-making process. The appropriate actions for different price expectations enhance satisfaction, loyalty, and, in turn, bank profits. Understanding price perceptions and their influence on remains a growing concern among researchers<sup>101</sup>.

## Conclusions

Based on the data that has been collected and SEM hypothesis testing with the help of the *smart* PLS application has been carried out, the conclusions of this research are highlight the significant influence of Customer Value on both Switching Costs and Customer Retention in the banking sector. Statistical analysis confirms that Customer Value positively affects these variables, supporting the hypotheses formulated. This underscores the consensus among researchers regarding the multidimensional nature of customer equity, encompassing value equity, brand equity, and relationship equity. Additionally, literature emphasizes the interconnectedness of these dimensions, further elucidating their impact on customer behavior.

In hypothesis three, the study reveals that Switching Costs play a crucial role in shaping customers' intentions to switch banks. Higher Switching Costs are associated with lower Switching Intention, indicating the rational decision-making process of conventional bank customers, particularly when considering the perceived expense of Islamic banks. Furthermore, while Switching Costs do not directly affect Customer Retention, they mediate the positive relationship

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<sup>101</sup> Harvir S. Bansal et al., “‘Migrating’ to New Service Providers: Toward a Unifying Framework of Consumers’ Switching Behaviors,” *Journal of the Academy of Marketing Science* 33, no. 1 (2005): 96–115; Vanessa G. Perry and Marlene D. Morris, “Who Is in Control? The Role of Self-Perception, Knowledge, and Income in Explaining Consumer Financial Behavior,” *Journal of Consumer Affairs* 39, no. 2 (2005): 299–313; Tsui Yii Shih and Sheng Chen Ke, “Determinates of Financial Behavior: Insights into Consumer Money Attitudes and Financial Literacy,” *Service Business* 8, no. 2 (2014): 217–38.

between Customer Value and Customer Retention. Despite acting as a potential barrier to switching, Switching Costs may serve as antecedents to customers' intentions to switch banks. Notably, in the context of this study, customers are more inclined to switch from conventional banks to Islamic banking.

Moreover, the research identifies a positive relationship between Shariah Compliance and Switching Costs, indicating Islamic banking customers' adherence to Shariah principles. However, Shariah Compliance does not directly influence Switching Intention. This underscores the importance of Islamic banking institutions meeting the needs of customers who prioritize Shariah compliance. Overall, the findings highlight the intricate interplay between customer values, switching costs, and Shariah compliance in shaping customer behavior in the banking industry, particularly in Islamic banking contexts. Meanwhile, the suggestions that can be given for further research are as follows:

- a. Theoretical suggestions: First, this study contributes to a deeper understanding of customer behavior in the banking sector, particularly regarding the factors influencing switching intentions and customer retention. By elucidating the relationships between Customer Value, Switching Costs, and Customer Retention, the study enriches existing theoretical frameworks in marketing and banking literature. Second, the findings support the conceptualization of customer equity, comprising value equity, brand equity, and relationship equity, as proposed in existing literature. This validation strengthens the theoretical foundation of customer equity theory and underscores its relevance in explaining customer behavior in diverse banking contexts.
- b. Practical suggestions: First, banking institutions can leverage the insights from this study to develop targeted marketing strategies aimed at enhancing customer retention and minimizing switching intentions. By prioritizing customer value and minimizing switching costs, banks can cultivate stronger relationships with their customers, thereby fostering loyalty and retention. Second,

understanding the role of Shariah Compliance in influencing switching costs enables Islamic banks to align their product offerings with the preferences of Shariah-conscious customers. By adhering to Shariah principles and offering Shariah-compliant products and services, banks can attract and retain customers who prioritize ethical banking practices.

Future Research Directions are first, future research could explore the cultural nuances influencing customer behavior in different banking contexts. Cross-cultural studies comparing customer behavior in Islamic banking with conventional banking systems across various cultural settings would provide valuable insights into the universal applicability of the findings. Second, longitudinal studies tracking customer behavior over an extended period would offer insights into the dynamic nature of switching intentions and retention patterns. By examining how these factors evolve over time, researchers can uncover trends and patterns that may not be apparent in cross-sectional studies. Last, complementing quantitative analyses with qualitative research methods, such as interviews and focus groups, would provide a deeper understanding of the underlying motivations driving customer behavior. Qualitative insights can offer nuanced perspectives that quantitative analyses alone may not capture, enriching the understanding of customer decision-making processes in the banking industry.

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