

# The Impact of Islamic Spirit as a Mediator in the Relationship Between Islamic Financial Products and Customer Satisfaction: An Empirical Analysis of Islamic Banks in Kuala Lumpur

Zakaria Mhd Saeed

<sup>1</sup> Faculty of Finance and Administrative Science, Al-Madinah International University,  
Taman Desa Petaling, 57100 Kuala Lumpur, Malaysia  
[dr.said.zakaria@gmail.com](mailto:dr.said.zakaria@gmail.com)

Barjoyai Bin Bardai

<sup>2</sup> Faculty of Finance and Administrative Science, Al-Madinah International University,  
Taman Desa Petaling, 57100 Kuala Lumpur, Malaysia  
[barjoyai.bardai@mediu.edu.my](mailto:barjoyai.bardai@mediu.edu.my)

Abdoulrahman Aljounaidi

<sup>3</sup> Faculty of Finance and Administrative Science, Al-Madinah International University,  
Taman Desa Petaling, 57100 Kuala Lumpur, Malaysia  
[abdulrahman.amez@mediu.edu.my](mailto:abdulrahman.amez@mediu.edu.my)

Mukhtar Idris Abu Baker Adam

<sup>4</sup> Faculty of Finance and Administrative Science, Al-Madinah International University,  
Taman Desa Petaling, 57100 Kuala Lumpur, Malaysia  
[mukhtar.adam@mediu.edu.my](mailto:mukhtar.adam@mediu.edu.my)

## Abstract

A complicated and nuanced link exists between Islamic financial goods and client satisfaction, with the Islamic Spirit playing a vital mediating role. The objective of this study is to investigate the impact of the Islamic Spirit on customer satisfaction with Islamic financial products, specifically examining important aspects including service quality, religiosity, and trust. Through a rigorous empirical research, this study investigates data collected from clients of Islamic banks and financial institutions in order to ascertain the degree to which the Islamic Spirit contributes to consumer happiness. The findings indicate that the Islamic Spirit plays a crucial role in influencing the connection between Islamic financial goods and consumer happiness. This emphasises the need of ensuring that financial services are in line with religious and ethical principles in order to cultivate customer loyalty and confidence. This study adds to the expanding collection of literature on Islamic finance by emphasising the crucial significance of spiritual and ethical variables in the decision-making processes of customers.

**Keywords:** *Islamic finance, Islamic Spirit, customer satisfaction, religiosity, trust, service quality*

## 1. Introduction

A growing demand for financial solutions that adhere to Islamic principles and values has propelled the Islamic finance sector to substantial expansion in recent decades. Islamic financial products, adhering to the rigorous principles of Shariah law, seek to offer ethical substitutes for traditional financial instruments, while avoiding practices such as Riba (interest) and Gharar (extreme uncertainty) (Khan, 2010). Notwithstanding the expansion of the sector, comprehending the determinants that influence customer satisfaction in Islamic finance continues to be a crucial field of research.

Perceptions of service quality, trust, and the congruence of financial products with Islamic principles are among the elements that impact customer satisfaction in the Islamic banking industry. The significance of religious

devotion and the Islamic Spirit, which refers to an inherent attachment to Islamic ethical standards, as mediators in augmenting consumer happiness and loyalty has been emphasised in recent research (Albaity & Rahman, 2021; Junaidi, 2021). The Islamic Spirit constitutes the spiritual and moral principles that direct individuals' economic conduct, guaranteeing that their financial actions adhere to Islamic doctrines and enhance their general welfare.

The significance of the Islamic Spirit as an intermediary in the correlation between Islamic financial goods and customer happiness is especially notable in areas where religious adherence strongly influences consumer behaviour. By integrating Islamic principles into financial goods, not only are the religious requirements of Muslim consumers fulfilled, but a stronger sense of trust

and loyalty towards Islamic financial institutions is also cultivated (Manik, 2019). Nevertheless, there remains a requirement for empirical investigations to measure the influence of the Islamic Spirit on customer satisfaction and to examine its interaction with other variables such as service quality and trust. The primary objective of this study is to address the existing knowledge gap by conducting an empirical analysis of the mediating function of the Islamic Spirit in the correlation between Islamic financial products and customer happiness. Through an analysis of this correlation within the framework of Islamic banking, the study aims to offer valuable perspectives on how financial organisations might more effectively synchronise their services with the spiritual and ethical visions of their clients, so augmenting satisfaction and cultivating enduring loyalty.

## 2. Problem Statement

The exponential growth of the Islamic finance sector highlights the growing need for financial products that strictly comply with Islamic standards. Nevertheless, despite the positive expansion, there exists a restricted comprehension of the elements that impact consumer happiness in this industry, namely the function of the Islamic Spirit as an intermediary. Prior research has confirmed that variables such as the quality of service, trust, and religion have a substantial influence on customer satisfaction (Albaity & Rahman, 2021; Junaidi, 2021). Nevertheless, the precise impact of the Islamic Spirit, which refers to the inherent dedication to Islamic ethical principles and values, on the correlation between Islamic financial products and consumer happiness has not been thoroughly investigated.

Furthermore, whilst other studies have established the beneficial impact of religiosity and trust on customer loyalty and satisfaction in Islamic banking (Kamarudin & Kassim, 2020; Suhartanto et al., 2019), there has been limited investigation into the mediating function of the Islamic Spirit in this association. The existence of this gap in the literature is noteworthy since the Islamic Spirit has the potential to improve customer satisfaction by better aligning financial products with the spiritual and ethical demands of Muslim consumers.

Thus, this study aims to fill the existing knowledge vacuum by examining the mediating function of the Islamic Spirit in the correlation between Islamic financial products and customer happiness. Gaining insight into this correlation is essential for Islamic financial institutions as they endeavour to fulfil the comprehensive requirements of their consumers, guaranteeing that financial services not only adhere to Islamic law but also align with the profound spiritual principles of their customer base.

## 3. Literature Review

The existing body of research on Islamic banking has thoroughly examined the conditions that impact customer satisfaction, with an increasing focus on the significance of religiosity and spiritual values in moulding consumer behaviour. The following section provides an overview of the pertinent literature about the influence of Islamic financial products on customer satisfaction, with a specific emphasis on the mediating function of the Islamic Spirit.

Islamic financial products are specifically developed to adhere to Shariah law, which explicitly forbids Riba (interest), Gharar (extreme uncertainty), and Haram (forbidden) activities. The product range, which includes Mudarabah (profit-sharing), Musharakah (joint ventures), and Murabaha (cost-plus financing), seeks to provide ethical substitutes for traditional financial goods. Multiple studies have demonstrated that the ethical character of these products has a substantial impact on customer satisfaction, especially among Muslim consumers who opt for financial services that are in line with their religious convictions (Al-Tamimi & Al-Amiri, 2003; Khan, 2010). Nevertheless, the intricacy and the requirement for rigorous adherence to Islamic principles provide obstacles in the process of product development and the attainment of Customer satisfaction.

Trust and service quality are essential elements for ensuring optimal client satisfaction in Islamic banking. Multiple studies have repeatedly shown that clients express higher levels of satisfaction with Islamic financial institutions when they identify these institutions as reliable and competent in delivering services of superior quality (Abdul Rehman & Shabbir, 2010; Amin & Isa, 2008). The research indicates that trust in Islamic banks is generally based on their strict commitment to Islamic principles, which provides consumers with confidence that their financial transactions are morally upright and in accordance with Shariah law (Janahi & Al Mubarak, 2017). Moreover, the study conducted by Amin and Isa (2008) and Alnaser et al. (2018) has established that service quality, namely in relation to empathy, dependability, and adherence to Islamic law, is a substantial indicator of customer satisfaction.

The concept of religiosity, which refers to the extent to which an individual follows religious ideas and practices, has been comprehensively examined as a determinant of customer satisfaction in Islamic finance. Statistical studies suggest that those with strong religious beliefs are more inclined to choose for Islamic financial products and report greater levels of satisfaction with them (Albaity & Rahman, 2021; Junaidi, 2021). The notion of the Islamic Spirit goes beyond simple religious devotion and includes a profound dedication to Islamic moral ideals and principles in all areas of life, including financial choices (Kamarudin & Kassim, 2020). According to Aslam, Ashraf, and Iqbal (2022), the perception of the value of Islamic financial products by customers is influenced by the Islamic Spirit. Customers who strongly identify with these spiritual ideals tend to express greater levels of happiness and loyalty.

While the impact of religion on customer happiness is well established, the precise function of the Islamic Spirit as an intermediary in the connection between Islamic financial goods and consumer pleasure has been little studied. According to recent research, the incorporation of the Islamic Spirit in financial products can greatly improve customer satisfaction. This is achieved by ensuring that the products not only adhere to Islamic law but also align with the profound spiritual and ethical principles of the clients (Albaity & Rahman, 2021; Hoque et al., 2022). In markets where religious observance significantly affects consumer behaviour, the mediating function of the Islamic Spirit is essential in promoting customer trust and loyalty (Suhartanto et al., 2019). Although there is an increasing amount of study on Islamic finance, there are still considerable gaps. Indeed, there is a pressing need for further empirical research that investigates the mediating function of the Islamic Spirit in various cultural and economic settings. Furthermore, although trust and service excellence are clearly recognised elements, their synergy with the Islamic Spirit in influencing customer happiness justifies further careful examination. A comprehensive grasp of these dynamics is crucial for Islamic financial organisations that seek to improve client happiness and loyalty.

**4. Methodology**

The methodology and scope of this study focus on investigating customer satisfaction in Islamic banks located in Kuala Lumpur, Malaysia. The study population comprises all customers of established Islamic banks in Kuala Lumpur, selected due to their significant contribution to Malaysia's financial sector. A sample size of 500 clients was chosen, utilizing a random sampling approach to ensure representativeness and minimize bias. The sample size determination was guided by Krejcie and Morgan's (1970) method, aiming for a 95% confidence level with a ±5 margin of error. This large sample size supports the use of structural equation modeling (SEM) for data analysis, which is critical for the study's complex model. The unit of analysis is focused on individual customers at all Islamic banks in Kuala Lumpur, providing a targeted and systematic analysis of customer satisfaction within this demographic. This approach ensures the collection of reliable data to draw meaningful conclusions about the influence of the Islamic Spirit on customer satisfaction in the Islamic finance sector.

**5. Research Framework**

The objective of this study is to investigate the mediating function of the Islamic Spirit in the correlation between Islamic financial products and customer happiness, particularly in the context of Islamic banks in Kuala Lumpur. The proposed paradigm incorporates fundamental concepts such service quality, trust, and religion, and investigates the interplay of these elements in shaping consumer pleasure. The conceptual framework seeks to enhance comprehension of the spiritual and ethical aspects that influence customer loyalty and

satisfaction in the Islamic banking industry by emphasising the role of the Islamic Spirit as a mediator.

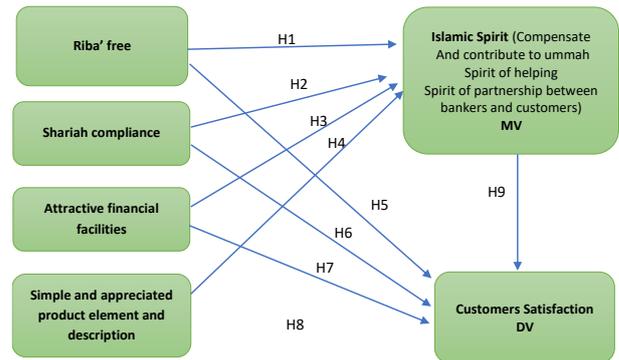


Figure 1 Research Hypotheses in Research Structural

**6. Results of Hypothesized Direct Effects**

The results from Table.1 reveal key insights into the relationships between constructs within Malaysian Islamic banks. Riba' Free (RF) practices significantly enhance the Islamic Spirit (IS) and customer satisfaction (CS), emphasizing the importance of ethical financial practices. Shariah compliance (SC) also positively impacts CS, but it shows a negative relationship with IS, suggesting challenges in aligning regulatory compliance with spiritual values. Attractive financial facilities (AF) boost IS but negatively affect CS, indicating that while appealing products may enhance spirituality, they do not always lead to customer satisfaction. Simple product elements and descriptions (SA) do not significantly influence IS or CS. Overall, the Islamic Spirit (IS) positively contributes to customer satisfaction, highlighting the critical role of spirituality in customer contentment within Islamic banking.

Table 1. Examining Results of Hypothesized Direct Effects of the Constructs

Path	Unstandardized Estimate	S.E.	Standardized Estimate Beta	C.R	P-value	Hypothesis Result	
							Estimate
H1	RF → IS	0.498	0.105	0.258	4.114	0.001	Supported
H2	SC → IS	0.352	0.058	-0.052	-0.648	0.000	Supported
H3	AF → IS	0.123	0.071	0.042	0.687	0.002	Supported
H4	SA → IS	0.166	0.049	0.195	3.312	0.254	Not Supported
H5	RF → CS	0.752	0.198	0.252	3.985	0.000	Supported
H6	SC → CS	0.298	0.114	0.160	2.684	0.006	Supported
H7	AF → CS	-0.102	0.129	-0.062	-1.085	0.003	Supported
H8	SA → CS	-0.011	0.082	-0.008	-0.072	0.309	Not Supported
H9	IS → CS	0.125	0.034	0.181	3.754	0.000	Supported

**7. Results of Hypothesized Mediation Effects**

The mediation analysis in Table.2 highlights the significant role of the Islamic Spirit (IS) in mediating the relationships between Riba' Free (RF), Shariah

Compliance (SC), Attractive Financial Facilities (AF), and Customer Satisfaction (CS) within Malaysian Islamic banks. Hypotheses 10, 11, and 12 are supported, indicating that IS effectively mediates the impact of RF, SC, and AF on CS. This underscores the importance of spirituality in enhancing customer satisfaction in Islamic banking. However, Hypothesis 13 is not supported, suggesting that IS does not significantly mediate the relationship between Simple and Appreciated Product Elements and Description (SA) and CS. These findings enhance our understanding of how various factors contribute to customer satisfaction in Islamic banking, particularly through the mediating influence of the Islamic Spirit.

Table 2. Decision Tree for Evidence Supporting Different Intervening Effects

#	Path	Standardized Estimate	P-value	Hypothesis Result
H10	RF → IS → CS	0.032	0.001	Supported
H11	SC → IS → CS	0.041	0.002	Supported
H12	AF → IS → CS	0.022	0.000	Supported
H13	IS → CS → CS	0.037	0.034	Not Supported

## 8. Recommendation

Several important recommendations and future research directions are suggested based on the findings of this study. In order to maximise client satisfaction, Islamic banks, especially those in Kuala Lumpur, should prioritise the augmentation of the Islamic Spirit (IS) by highlighting the ethical and spiritual aspects of their financial goods and services. This objective can be accomplished by implementing educational programs that emphasise the spiritual advantages of following Islamic financial rules. Furthermore, banks should persist in enhancing their adherence to Shariah principles and the attractiveness of their financial services, so assuring that these goods are in line with spiritual objectives, thus augmenting client pleasure even further. Nevertheless, the lack of discernible mediation impact of information systems (IS) on the correlation between basic product descriptions and customer satisfaction implies that banks should reassess the importance placed on simplicity in their product offers. In contrast, a stronger emphasis on the ethical and spiritual congruence of products may prove more efficacious in generating satisfaction.

## 9. Suggested Future Research

To gain a more comprehensive understanding of the influence of the Islamic Spirit in Islamic banking, future study should investigate its function in various cultural settings. Moreover, longitudinal research would be highly beneficial in comprehending the progression of consumer satisfaction over time, especially as banks adopt services that are more closely connected with spiritual values. Furthermore, in light of the growing digitisation of banking, it is imperative for study to investigate the impact of digital platforms on the Islamic Spirit and its correlation with customer satisfaction. A comparative analysis of the impact of spirituality and ethical alignment on customer satisfaction in Islamic and conventional

banks would provide a clear understanding of the distinct benefits of Islamic banking and pinpoint necessary areas for enhancement. This paper proposes recommendations and research directions to further the knowledge of customer satisfaction in Islamic banking and direct future endeavours to improve the spiritual and ethical aspects of Islamic financial services.

## 10. Conclusion

The present research has yielded significant findings about the intermediary function of the Islamic Spirit in the correlation between Islamic financial products and customer satisfaction in Islamic banks located in Kuala Lumpur. The results emphasise the need of following Islamic financial principles, including Riba' Free procedures and Shariah compliance, to promote a robust spiritual bond and ensure maximum customer satisfaction. The Islamic Spirit was identified as a significant mediator in the influence of these elements on customer satisfaction, emphasising the need of matching financial goods with the spiritual and ethical demands of consumers. Nevertheless, the research also unveiled that although appealing financial amenities can strengthen the spiritual bond, they do not automatically result in increased customer happiness, indicating an intricate interaction between spirituality and customer experiences of financial products. Furthermore, the impact of straightforward product descriptions on both the Islamic Spirit and customer happiness was found to be insignificant, suggesting that other aspects may have a greater importance in influencing consumer satisfaction. Thus, these results enhance our knowledge of how spiritual and ethical factors influence consumer satisfaction in Islamic banking. The report also offers practical recommendations for Islamic banks seeking to improve their customer connections by matching their financial services more closely with the spiritual principles of their customers. Further investigation is warranted to examine these dynamics within various cultural settings and assess the influence of digitalisation on the correlation between the Islamic Spirit and customer happiness. By adopting this approach, Islamic banks can effectively manage the difficulties of preserving their spiritual and ethical principles while satisfying the changing demands of their clients.

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