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Service Quality and Customer Satisfaction in Islamic Banking: A Conceptual Framework within the Libyan Context

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Abstract: *In Islamic financial institutions, service quality is a crucial factor influencing consumer satisfaction, as they must comply with Shariah principles and ethical standards in their service delivery. Even though Islamic banking is growing all over the world, there are still not enough real-world or theoretical studies in Libya that focus on customer happiness and service quality. This conceptual study aims to examine and integrate the current research regarding the influence of service quality characteristics on customer satisfaction in Islamic banking, specifically focusing on the Libyan setting. This research examines the significance of five essential elements of service quality: responsibility, reliability, empathy, assurance, and tangibility on consumer satisfaction in Islamic banks, employing the SERVQUAL paradigm. This paper underscores the impact of cultural, institutional, and regulatory characteristics unique to emerging and post-conflict economies, exemplified by Libya, on perceptions of service quality through an extensive analysis of prior studies in both Islamic and conventional banking. The findings of this analysis demonstrate that elements of service quality are crucial in enhancing consumer happiness, trust, and enduring relationships within Islamic financial organizations. The research theoretically contributes by amalgamating disparate material into a cohesive conceptual framework pertinent to Islamic institutions in Libya. In practice, it provides bank managers and policymakers with significant insights to improve service delivery strategies that align with Islamic principles and consumer expectations. The study concludes by advocating for subsequent empirical research to validate the postulated conceptual links within the Libyan Islamic banking sector.*

Keywords: *Service Quality; Customer Satisfaction; Islamic Banking; Libya; SERVQUAL Model.*

INTRODUCTION

The banking sector is essential for economic development as it facilitates financial intermediation, supports investment activities and promotes financial inclusion. Islamic banking has become a substantial element of the global financial system in recent decades, providing Shariah-compliant financial products that prioritize social responsibility, risk-sharing and ethical conduct (Alam et

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al., 2023). Service quality has emerged as a critical strategic factor that impacts institutional performance and customer satisfaction as the banking industry's competition intensifies (Yilmaz et al., 2022). It is of paramount importance to Islamic banks to provide high-quality services, as consumers evaluate not only the functional efficiency of the bank, but also the bank's adherence to Islamic principles and moral values.

It is widely acknowledged that customer satisfaction is a critical consequence of effective service quality management (Raza et al., 2022; Zeitun & Anam, 2024). Financial institutions are more likely to establish long-term relationships with satisfied consumers, who are more likely to remain loyal and engage in positive word-of-mouth. In the realm of Islamic banking, customer satisfaction is influenced by both traditional service quality attributes and supplementary dimensions that pertain to Shariah compliance, transparency, and trust. As a result, it is imperative for Islamic institutions that are interested in sustainable growth to comprehend the correlation between customer satisfaction and service quality.

The Islamic banking sector in Libya has undergone a gradual transformation as a result of regulatory reforms and the growing public demand for Shariah-compliant financial services (El-Hawary & Al-Safadi, 2023). Nevertheless, the Libyan financial sector is confronted with distinctive obstacles, such as institutional instability, a restricted technological infrastructure, and a changing regulatory framework. These circumstances underscore the significance of service quality as a method of enhancing customer satisfaction and bolstering customer confidence. Existing research on service quality in Libyan Islamic institutions is scarce and fragmented, with limited conceptual integration of established service quality models, despite this relevance.

This paper addresses this gap by offering a conceptual analysis of customer satisfaction and service quality in Islamic banks within the Libyan context. In particular, it employs the SERVQUAL model to investigate the ways in which the dimensions of tangibility, reliability, responsiveness, assurance, and empathy contribute to consumer satisfaction. This study endeavors to establish a comprehensive conceptual framework that will inform managerial practices in Libyan Islamic financial institutions and inform future empirical research by synthesizing prior literature.

LITERATURE REVIEW

Overview of Libyan Islamic Banking

Islamic banking in Libya has emerged in a distinctive economic and institutional environment that has been influenced by regulatory reform, socio-political instability, and the growing public demand for Shariah-compliant financial services. Legislative reforms that were designed to eliminate interest-based transactions and align financial activities with Islamic principles were the driving force behind the formal introduction of Islamic banking in Libya. Consequently, numerous conventional banks have either fully transitioned to Islamic banking operations or have implemented Islamic banking windows to accommodate customer preferences.

In spite of this advancement, Islamic institutions in Libya continue to encounter operational and structural obstacles. These consist of inconsistencies in regulatory enforcement, inadequate human capital specialized in Islamic finance, and limited technological infrastructure. These obstacles can have a detrimental impact on customer fulfillment and the delivery of services. In emerging banking systems such as Libya, clients frequently prioritize service quality attributes as indicators of institutional reliability and trustworthiness. The competitiveness and credibility of Islamic institutions within the Libyan financial system are significantly enhanced by an understanding of the impact of service quality on customer satisfaction.

Service Quality in Islamic Banking

Service quality is a multidimensional concept that represents the comprehensive evaluation of a service by consumers, taking into account their expectations and actual experiences (Grönroos, 1984). Service quality in the banking sector is a comprehensive concept that incorporates both tangible and intangible components, such as physical facilities, employee behavior, service reliability, and responsiveness (Parasuraman et al., 1988**)**. Service quality in Islamic institutions encompasses more than just functional efficiency; it also encompasses ethical behavior, transparency, and adherence to Shariah principles (Ashraf et al., 2022; Rahman et al., 2023).

Prior research has underscored the fact that customers of Islamic institutions assess service quality in terms of trust, fairness, and moral responsibility, in addition to speed and accuracy (Raza et al., 2022; Janahi & Al Mubarak, 2022). Islamic institutions are under additional pressure to maintain high service standards and ensure adherence to Islamic values as a result of this dual expectation. As a result, service quality is a critical factor in the development of consumer satisfaction, trust, and long-term relationship outcomes in Islamic financial institutions.

Due to customers' elevated awareness of institutional credibility and service consistency, service quality is especially significant in the Libyan context (El-Hawary & Al-Safadi, 2023). Dissatisfaction and diminished confidence in Islamic banking institutions may result from inadequate service performance. Consequently, it is imperative to implement a suitable service quality framework in order to assess and enhance customer satisfaction in Islamic institutions.

SERVQUAL Model as a Framework for Service Quality

The SERVQUAL model is a widely used framework for evaluating service quality in a variety of service industries, including banking (Parasuraman et al., 1988; Kumar et al., 2023). It represents service quality as the discrepancy between consumer expectations and perceptions in five critical areas: tangibility, reliability, responsiveness, assurance, and empathy. The model's exhaustive and adaptable structure has been extensively employed in both conventional and Islamic banking studies.

SERVQUAL model has demonstrated its efficacy in capturing customers' perceptions of service delivery in Islamic banking research while also allowing for contextual adaptations that are related to religious and cultural values. The SERVQUAL model continues to be a robust and widely

accepted framework for conceptual analysis, despite the introduction of alternative models such as CARTER and the Islamic SERVQUAL model (Cronin & Taylor, 1992). Due to its adaptability, it is appropriate for the assessment of service quality in transitional and developing economies, such as Libya.

The SERVQUAL model serves as the conceptual framework for this investigation, which examines the correlation between customer satisfaction and service quality in Libyan Islamic institutions. The Islamic banking environment is contextualized and each dimension is discussed in relation to prior literature.

Service Quality Dimensions and Customer Satisfaction

Tangibility

The physical aspects of service delivery, such as branch appearance, equipment, technology, and employee presentation, are referred to as "tangibility." In banking services, tangible elements function as visible indicators of institutional professionalism and service quality. Tangibility is also indicative of the organization's dedication to client comfort, accessibility, and transparency in Islamic banks**.**

Research has demonstrated that customer satisfaction is positively impacted by well-maintained facilities, modern banking technology, and plain informational materials. In Libya, tangible service elements can considerably influence customer perceptions, as banking infrastructure varies significantly across regions. Customer contentment and confidence in Islamic banking services may be improved through the implementation of digital banking platforms and improved physical environments (Yilmaz et al., 2022; Rahman et al., 2023)**.**

Reliability

The bank's capacity to deliver services as promised with precision and consistency is exemplified by reliability. It is regarded as one of the most critical aspects of service quality, as consumers anticipate that banks will provide dependable financial solutions, timely services, and error-free transactions.

Trust and Shariah conformance are inextricably linked in Islamic banking. Customers depend on banks to guarantee that financial products and services are in precise compliance with Islamic principles. In the Libyan banking sector, operational inefficiencies and service interruptions may erode the perception of reliability, thereby impacting consumer satisfaction. Consequently, it is imperative to ensure that Islamic banks provide consistent and precise service delivery in order to bolster consumer confidence (Raza et al., 2022; Ahmed & Raza, 2015).

Responsiveness

The willingness and preparedness of employees to provide prompt services and facilitate customers are referred to as responsiveness. This dimension is indicative of the efficiency and effectiveness with which banks address consumer inquiries, complaints, and service requests.

Research suggests that customer satisfaction is considerably improved by responsive service, particularly in service-intensive industries like banking. In Islamic banks, responsiveness is also indicative of ethical responsibility and reverence for customers. In Libya, where customers may experience bureaucratic delays, Islamic institutions can differentiate themselves and improve overall customer satisfaction by enhancing employee responsiveness (Islam et al., 2023).

Assurance

Assurance pertains to the capacity of employees to foster trust and confidence in consumers by virtue of their knowledge, courtesy, and expertise. Due to the technical complexity of Shariah-compliant products and the customers' dependence on staff expertise, assurance is particularly critical in Islamic banking.

Customers anticipate that Islamic bank employees will possess a sufficient understanding of Islamic finance principles and professional competence. In the Libyan context, assurance perceptions may be weakened by a lack of expertise in Islamic banking. Consequently, the reinforcement of trust and confidence in Islamic banking services can positively impact customer satisfaction by enhancing staff training and professional development (Zeitun & Anam, 2024).

Empathy

Empathy is indicative of the extent to which customers are given personalized attention and concern. It entails the ability to comprehend the demands of customers, provide personalized services, and exhibit a sincere interest in their well-being.

Empathy is an especially pertinent aspect of Islamic banking, as it prioritizes social responsibility and equity. Previous research indicates that empathetic service enhances the emotional bonds between consumers and banks, resulting in increased satisfaction. Empathetic interactions may significantly improve customer contentment in Islamic banks in Libya, where personal relationships frequently influence service evaluations (Janahi & Al Mubarak, 2022).

Proposed Framework for Service Quality and Customer Satisfaction

The reviewed literature consistently identifies service quality as a critical antecedent of consumer satisfaction in banking services. The SERVQUAL dimensions collectively influence the evaluations and perceptions of service experiences that consumers have. Ethical considerations and Shariah conformance further influence these dimensions in Islamic banking.

This study suggests that Islamic banks in Libya experience increased consumer satisfaction as a result of enhancements in tangibility, reliability, responsiveness, assurance, and empathy.

Providing a structured comprehension of these relationships, the proposed framework developed in this paper serves as a foundation for future empirical research

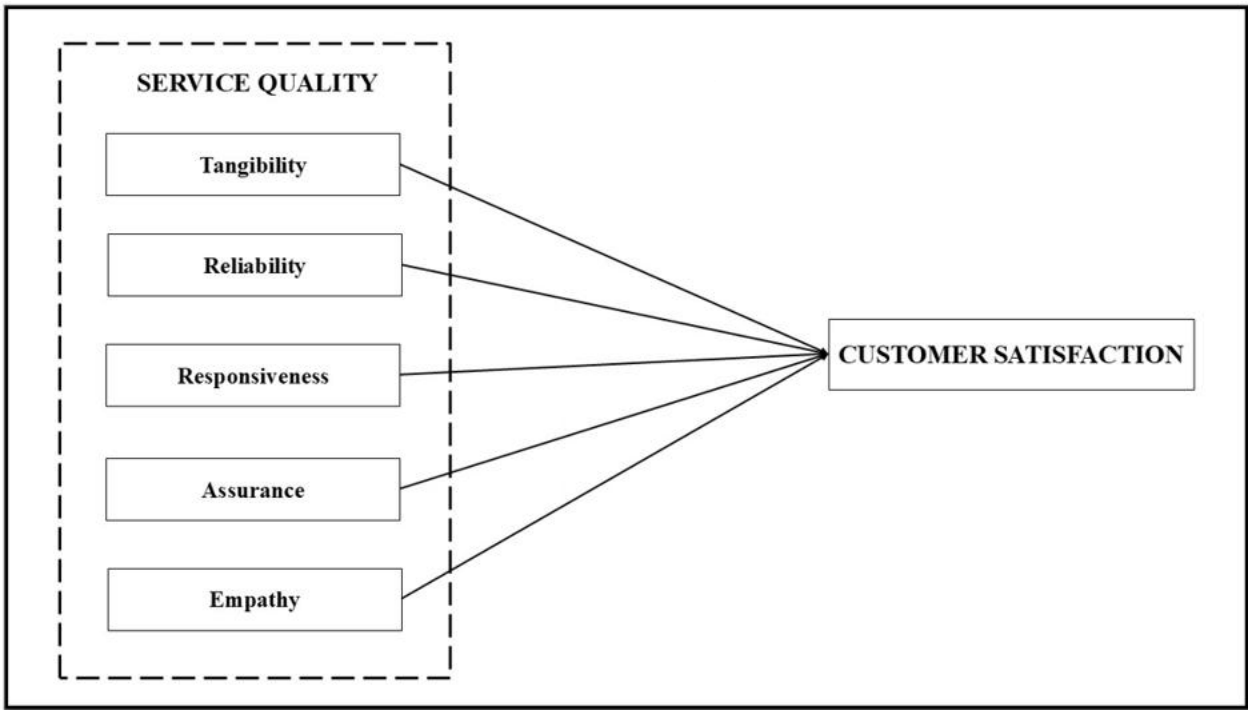


Figure **Error! No text of specified style in document.**.1 Proposed framework for Service Quality on Customer Satisfaction among Customers of Islamic Banks in Libya

Figure 2.2 presents a proposed framework illustrating the influence of service quality on customer satisfaction among customers of Islamic banks in Libya. It identifies five key dimensions of service quality namely tangibility, reliability, responsiveness, assurance and empathy that have a direct and positive influence on customer satisfaction. Each dimension of service quality is shown as contributing to the overall customer satisfaction, forming the basis for analyzing how different aspects of service quality influence customer satisfaction in the Islamic banking sector in Libya.

CONCLUSION

This paper established a proposed framework that elucidates the relationship between customer satisfaction and service quality dimensions in Islamic banking institutions in Libya. The study determined that the SERVQUAL model is a suitable theoretical framework for evaluating service quality in Islamic financial institutions, based on a comprehensive review of the literature, particularly in the distinctive institutional and regulatory environment of Libya. The proposed framework implies that customer satisfaction is collectively influenced by tangibility, reliability,

responsiveness, assurance, and empathy. This study contributes to the existing body of knowledge and establishes a structured foundation for future empirical research that aims to validate the proposed relationships by contextualizing established service quality theory within the Libyan Islamic banking sector. In practice, the framework provides Islamic bank managers and policymakers with guidance to improve service delivery standards, strengthen customer trust, and increase overall satisfaction in accordance with Shariah principles. This approach supports sustainable growth and long-term customer relationships.

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CONFLICT OF INTEREST STATEMENT

The author declares that there is no conflict of interest regarding the publication of this paper.

ETHICS STATEMENT

This study did not involve human participants, animals, or sensitive personal data. It is based solely on a review of existing literature and was conducted in accordance with accepted academic integrity and ethical publishing standards.

AUTHOR CONTRIBUTION STATEMENT

The author was responsible for the conceptualization, literature review, analysis, drafting, and final revision of the manuscript. The author approved the final version of the manuscript for submission.

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