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Research article

The Effect of E-Service Quality and Brand Image on Customer Loyalty to Conventional Banks During the COVID-19 Pandemic

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Abstract.

This study aimed to determine the effect of e-service quality and brand image on customer loyalty with customer satisfaction as a mediating variable at conventional rural banks in East Java. These conventional rural banks are a part of the *Perbarindo* – a banking association of 215 rural banks. The sampling technique used was saturated sampling and data were analyzed using the PLS Wrap.5.0 software to inspect the outer and inner models. It was found that the e-service quality and the brand image had a significant direct effect of 39% and 41%, respectively, and a significant indirect effect of 57% and 53%, respectively, on customer loyalty with customer satisfaction as a mediating variable, statistics >1.96, and *P*-values = 0.000 which is <0.05.

Keywords: e-service quality, brand image, customer loyalty, customer satisfaction, rural credit bank

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1. Introduction

Rural Bank (BPR) is a banking financial institution in Indonesia that can also provide micro and small credit services. This gave rise to very tight competition between Conventional Commercial Banks, Sharia Commercial Banks, Conventional BPRs and Sharia BPRs in increasing the amount of *funding* and *lending* in the community . This condition encourages the growth of banking in Indonesia, which is increasingly reaching people who need banking services [1]. Banking institutions as financial intermediaries always try to maintain their assets and liquidity by providing various banking services, products and interest rates to customers [2]. One of them is in the form of financial services using the internet network as part of a banking strategic plan [3]. Internet network users enable banks to improve online financial service innovation which is manifested in the form of: a) Check account balances and transaction history, b) Pay bills, c) Transfer

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funds between accounts, d) Request credit card payments, e) Checks, and f) Manage investment and stock trading.

Based on the Circular Letter of the Financial Services Authority Number 12/SEOJK.07/2014 concerning Submission of Information in the context of Marketing of Financial Services Products and or Services, it shows that Rural Banks (BPRs) are required to be able to use digital technology in order to protect customers from product offerings and advertisements. which is not clear. The use of this digital technology requires an internet connection where internet use at BPR is only limited to helping facilitate business transaction activities, but in this 4.0 revolution the internet has an important role in the banking world which functions as a locomotor in order to survive and compete to get customer loyalty. The whole BPR began vying to attract the attention of consumers by giving *sevice* is *online* and *offline,* but the use of e- *sevice quality* which is implemented by the RB still not up to one of them is in the form of transaction or use of *the website* is different from the general banking where the use of *service* in *online* has a significant influence in creating customer satisfaction and loyalty [1]. The increase in the number of credits can be due to customer satisfaction, good services provided and high customer loyalty [3], [4].

E-SQ can be in the form of increasing the use of websites that facilitate efficient and effective shopping, purchasing, and product delivery and increasing customer loyalty with dimensions that capture willingness to repurchase and recommend to others. The quality of internet banking electronic services in the US recommends three dimensions for the quality of electronic services namely Efficiency, Contact, Customization. also revealed that usability, ease of use, reliability, responsiveness, security, privacy emerged as dimensions of internet banking in Hong Kong. For internet banking in Taiwan it shows that the dimensions that make up the quality of electronic services are Efficiency, Compliance, System Availability, Privacy, Contacts, Compensation, Site Aesthetics, Customization.[5] . E-service quality has no significant effect on customer loyalty in banking.

customer and customer loyalty the telecommunications industry's rapid development, e-SQ is becoming more important in enhancing customer loyalty by mediating customer satisfaction and. [6] Brand image and perceived service quality affect customer loyalty. The results show that customer satisfaction is the most important critical factor for the success of any supermarket organization with reasonable product prices, availability of quality products, providing service in an accurate time, obtaining accurate information, and less time to maintain records at the cash register. [7], but brand image has no effect on customer loyalty . [3]. The improvement of e service quality is a hot topic that is

being researched which can be shown in Figure 1. The results of VosViewer regarding e service quality are below.

Figure 1: The results of the publication of trends in the topic of e service quality with the Vosviewer application.

Satisfaction confirms its significant role and has a significant positive effect on loyalty development [3]. Customer loyalty is very vital in the business world.[8]. After reviewing the relationship between satisfaction and loyalty, we conclude that the best approach is one that considers satisfaction and loyalty to be two different states, while acknowledging that the first will likely leads to the second. [7].

Conventional BPRs are more familiar with the area and its business opportunities, the tendency of BPRs to monitor customers and communicate with a higher frequency considering that BPRs are generally located where their customers live, Services are more familial, BPR services to customers tend to use a familial approach and local culture because most of the employees and management of the BPR come from the area where the BPR operates. [5] . Increasing the number of Conventional BPR Assets in East Java with the highest position in the Sidoarjo area with a total fund of 735 billion with a map of the distribution of Conventional BPR in Sidoarjo City with the highest number of 57 Conventional BPR offices. Conventional BPR in Sidoarjo is part of banking financial institutions in Indonesia that must implement E-Service Quality and improve Brand Image to ensure high customer loyalty and can grow in the competitive world of

the industrial revolution 4.0. Based on the description above, the researcher wants to know the effect of *e service quality and brand image* on *customer loyalty* with *customer satisfaction* as a mediating variable at Conventional BPR in East Java

1.1. Study of Theory and Hypotheses

E service quality is an innovation in terms of customer service more effectively and efficiently through internet media [7] indicators used are web design, usability, privacy, information quality. *Brand Image* is the perception of consumers when they think of a brand that is in accordance with the product or service [8] the indicators used are product image, user image. *Customer satisfaction* is a consumer's feeling of pleasure that exceeds expectations for the product he bought [3] indicators of customer service, price, easy accessibility. *Customer loyalty* is a consumer repurchase of products and services and recommends to other parties [3] the indicators used are repeat purchases, retention and referrals

The hypotheses in this study are:

H1. E-Service Quality has a significant effect on *customer loyalty* at Conventional BPR in Sidoarjo.

H2. *Brand Image* has a significant effect on *customer loyalty* at Conventional BPR in Sidoarjo.

H3. Customer satisfaction mediates the effect of *E-Service Quality* on *Customer Loyalty* at Conventional BPR in Sidoarjo.

H4. *Customer satisfaction* mediates the effect of the *Brand Image* System on customer loyalty at Conventional BPR in Sidoarjo.

2. Research methods

This study used a quantitative approach and was conducted on 215 East Java Conventional BPRs who are members of Perbarindo. The sample used is a saturated sample technique where each member of the population is used as a sample, as many as 215 Conventional BPRs in East Java. Primary data collection is done by distributing questionnaires to respondents via google form. The goal is to get a clear picture of Conventional BPR, both information and conditions in the field related to *customer loyalty* . In this study, two types of analysis were used, namely descriptive and quantitative techniques or inferential statistical analysis of the data obtained in the field with a linker scale of 1-5 and the analysis tool using PLS Wrap 5.0. Based on the results of the validity
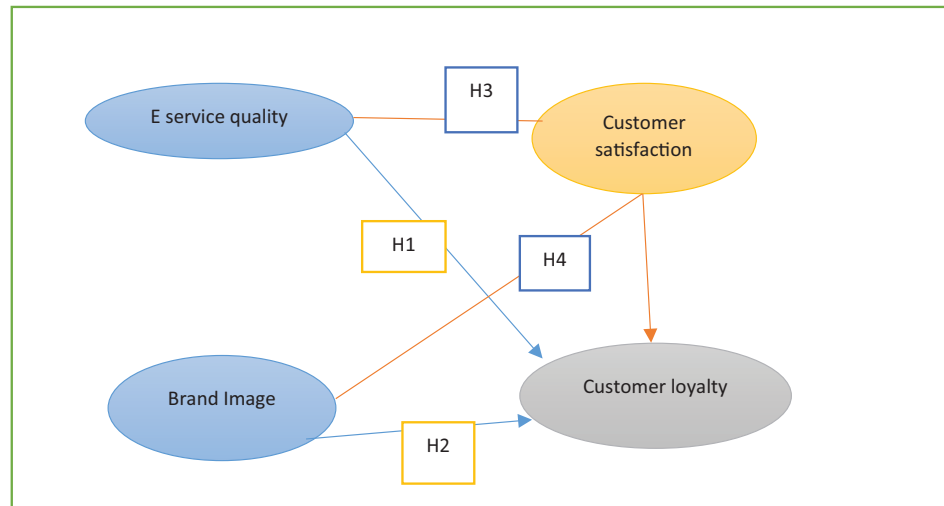
Figure 2: Research framework.

and reliability of the instrument, it is declared valid if all indicators have a correlation coefficient greater than 0.30 and Cronbach's alpha is greater than 0.60, meaning that all statement items used as instruments are reliable.

3. Results and Discussion

3.1. Results

Data quality testing

3.2. Validity test

Validity test can be known by looking at the value of AVE (Average Variance Extracted) which requires greater than 0.5

TABLE 1: Results of AVE . values.

Average variances extracted			
X ^{1}	X ^{2}	Z	Y
0.530	0.688	0.625	0.685
Source: AVE value on SEM-PLS *Wrap* testing *pls* 5.0, (data processed, 2021)			

Based on the table above, the AVE (Average Variances Extracted) value of the *e service quality* variable (X1) is 0.530, *brand image* (X2) is 0.688, *Customer satisfaction* (Z) ▮

is 0.625 and Customer loyalty (Y) is 0.685. All variables are declared valid because the AVE value is more than 0.5.

3.3. Reliability Test

Reliability test is determined by looking at the results of Internal Consistency Reliability which must be greater than 0.7

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TABLE 2: Value Composite Reliability.

Composite reliability coefficients			
X ^{1}	X ^{2}	Z	Y
0.780	0.728	0.785	0.765
Source: SEM-PLS reliability score results Warpps 5.0 (data processed, 2021)			

Based on table 2. It can be seen that the value of composite reliability coefficients from the variables *e service quality* (X1) is 0.780, *brand image* (X2) is 0.728, *Customer satisfaction* (Z) is 0.785 and Customer loyalty (Y) is 0.765. All variables are declared valid because their value is more than 0.7.

3.4. Inner Model Testing (Structural Model)

The magnitude of the effect size can be done through structural model testing and can be seen from the value of R-squares on the variables Z to Y, which in this study is 0.362 or 36%, which means the effect is classified as very strong, where the effect size can be categorized into 3, namely weak (0.02), medium (0.15), and large (0.35).

3.5. Hypothesis testing

The hypothesis in this study is accepted if the p value is < 0.10 and the significance level value is by looking at the P-values at the Wrap PLS 5.0 output. while the magnitude of the influence between variables can be indicated by the magnitude of the beta coefficient of each path.

Based on Figure 2 below, the results of hypothesis testing can be explained as follows:

1. The magnitude of the direct effect of X1 on Y is 0.39 or 39%

2. The magnitude of the direct effect of X2 on Y is 0.41 or 41%

3. Indirect effect X1 on Z + direct effect Z on Y, = 0.28 + 0.29 = 0.57 or 57%

4. Indirect effect X2 on Z + direct effect Z on Y, = 0.24 + 0.29 = 0.53 or 53%

4. Discussion

The first hypothesis is that e service quality has an effect on Customer Loyalty of Conventional BPR in East Java. Conventional BPRs in East Java have started using e-services, such as opening and creating websites for advertising promotions for credit and savings products, as well as deposits and even payments and all kinds of transactions using e-services. Conventional BPRs also try to publish all BPR activities on their website in addition to aiming for monthly reporting to the OJK, this is evidenced by the large number of respondents who use the website. In line with research [8] online financial service innovation using the internet system is more efficient than other distribution media where customers become more comfortable and trust.

The second hypothesis, **Brand Image has an effect on Customer Loyalty of Conventional BPR in East Java.** Conventional BPRs build a brand image of their products with high interest rates and guaranteed by LPS and banking institutions that are always close to the small and medium community who can be used as friends of SMEs in business ventures. In line with research on brand trust and the effect of brand image on customer satisfaction after using health services , brand image has the greatest influence , customers tend to spend money and time, and travel long distances to receive treatment.[4], the buyer's attitude towards a brand is based on the product brand. However, the relationship between brand image and loyalty persists and remains unresolved.

The third hypothesis is that **customer satisfaction is able to mediate e service quality on customer loyalty at conventional BPRs in East Java.** The use of the web, ease of access and information on Conventional BPR products that are easily accessible by customers make e-service quality support the acceleration of financial transactions so that customers are satisfied and there is re-interaction in the use of BPR products. In line with research Quality is a key element of business achievement. According to the definition of, service quality is "the overall evaluation of a particular service company that results from comparing the company's performance with customers' general expectations of how companies in that industry should work â€ . Service quality plays an important role in achieving important goals, including developing trust, increase satisfaction, and foster loyalty, which are recognized as important factors in business competitiveness and success.[4] For this reason, service quality has been

studied extensively in traditional telecommunications service settings, however, online services differ from traditional services.First , elements human no e-channel: most interactions or communications between customers and businesses rely on computers or mobile phones. From human-computer interactions, the factors that affect online service quality, or electronic service quality (e-SQ), differ greatly from channel physical service traditional. Second, Compared with the physical service environment, online service customization is not direct. Sufficient customer information must be collected and processed according to online services. [7]. In addition, BPRs also have challenges in dealing with customers who want to have convenience and speed of transactions at any time. Currently, there are many mobile banking services that can help customers make transactions quickly. [9] .

The fourth hypothesis, customer satisfaction is able to mediate brand image on customer loyalty.

Conventional BPRs improve their brand image through products that are easily recognized by the public with high interest rates and guaranteed by the government, in this case LPS. In line with research [7]. There is an affirmation of direct and indirect relationships as long as customer satisfaction plays a mediator role **.** Managers should improve brand image by increasing people's awareness about their brand. As a consequence of increasing brand loyalty awareness, a good brand image will also develop and customer satisfaction will also increase . Customer satisfaction plays a mediating role between brand image, perceived service quality and customer loyalty. Because if customers are satisfied with the brand image and perceived service quality, customer loyalty also increases. [10]

5. Conclusion

1. *E service quality* has a significant positive effect on customer loyalty at Conventional BPR in East Java by 39%. Conventional BPRs build a brand image of their products with high interest rates and guaranteed by LPS and banking institutions that are always close to the small and medium community that can be used as friends of SMEs in business

2. *Brand image* has a significant positive effect on customer loyalty at Conventional BPR in East Java by 41%. Conventional BPRs build a brand image of their products with high interest rates and guaranteed by LPS and banking institutions that are always close to the small and medium community who can be used as friends of SMEs in business ventures.

3. *Customer satisfaction is* able to mediate *e service quality* on customer loyalty at conventional BPRs in East Java by 57%. The use of the web, ease of access and information on Conventional BPR products that are easily accessible to customers make e-service quality support the acceleration of financial transactions so that customers are satisfied and there is re-interaction in the use of BPR products.

4. *Customer satisfaction is* able to mediate *brand image* on customer loyalty at conventional BPRs in East Java by 53%. Conventional BPRs improve their brand image through products that are easily recognized by the public with high interest rates and guaranteed by the government, in this case LPS.

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