

THE INFLUENCE OF CUSTOMER REWARD PROGRAMS, SERVICE QUALITY, AND DIGITAL BANKING SERVICES TOWARD CUSTOMER LOYALTY AT PT. BANK DANAMON INDONESIA, TBK.

¹Elizabeth Alexandria Lauren, ²Tanti Handrian

¹Mahasiswa Magister Manajemen Fakultas Ekonomi & Bisnis Universitas Airlangga

²Dosen Magister Manajemen Fakultas Ekonomi & Bisnis Universitas Airlangga

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E-mail:

¹elizabeth.alexandria.lauren-2020@feb.unair.ac.id,

²tanti.handriana@feb.unair.ac.id

ABSTRACT

Banks and financial institutions were the most significantly affected sectors during the COVID-19 pandemic. Most banks and financial institutions endeavor to create their customers' loyalty in order to sustain the business' profitability since attracting new customers requires tremendous effort and costs more than retaining existing customers. This study examines factors affecting bank customer loyalty including reward programs, service quality, and digital banking services. The data from 150 respondents were analyzed using SPSS 26.0. The findings of this study indicate that digital banking services have a significant positive influence on customer loyalty. On the other hand, reward programs and service quality do not significantly contribute to customer loyalty. The present study's key managerial implication is that banks' investments in developing excellent digital banking services are expected to improve customer loyalty.

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1. INTRODUCTION

The COVID-19 pandemic that has occurred for nearly three years has had a broad impact on the economy, including recession, inflation, and layoffs as a result of declining company profitability in various industries, especially in the financial and banking sectors, which were considered the most significantly affected sector (CNBC Indonesia, 2020). Many state-owned and private banking companies strive to increase the company's profitability by retaining customer loyalty to maintain the business' sustainability (Hambali et al., 2022). Most banks and financial institutions endeavor to create their customers' loyalty in some ways, such as by giving massive promotions or reward programs, providing sophisticated digital banking innovation, and offering excellent service quality to their customers.

Customer loyalty is one of the critical aspects for the success of various businesses, especially the banking business, because attracting new customers requires more significant effort and costs than retaining existing customers (Singh & Imran, 2012). In banking, customer loyalty can primarily be identified by customers' length of relationship with the bank (Wang & Wu, 2012), and the portfolio the customers have within the bank (Salinas & Schinzano, 2014). The more extended the relationship customers have with the bank, and the more products holding customers have as the result of customer loyalty, will lead to the bank's sustainability and profitability (Wang & Wu, 2012). Therefore, customer loyalty becomes a salient aspect, especially in the banking business. Previous studies have found that there have been some prominent factors that could lead to customer loyalty, namely customer reward programs (Magatef & Tomalieh, 2015; Taylor et al., 2015), service quality (Rasheed et al., 2015), and digital banking services (Hadid et al., 2020).

Despite the declining trend of banking profitability as a result of the COVID-19 pandemic, PT Bank Danamon Indonesia Tbk (Bank Danamon) was one of the banks that managed to profit and was regarded as "The Most Popular Digital Financial Brands by Millennial's Choice" (The Economics, 2021). In addition, Danamon was the first to receive the "Satisfaction, Loyalty, Engagement Awards 2021" (Infobank, 2021). In the international scope, Bank Danamon was also the Best Digital Bank Indonesia at the Asia Money Best Bank Award 2020. Bank Danamon also received the Asia Trailblazer 2020 award from Retail Banking International (RBI) with the title Highly Commended in the Best Digital Banking Initiative category. In addition, Bank Danamon received the 2020 DX Gamechanger award from IDC for the company's digital transformation. These achievements indicate that Bank Danamon was able to make improvements in terms of digital banking services to increase customer loyalty.

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Despite these achievements, according to the 2021 annual report and 2022 quartal report (Q1-Q3), it is known that Bank Danamon's third-party funds have been declining in the past few years, as depicted in the Table 1 below. The number of third-party funds, which includes current accounts, savings, and time deposits, becomes an indicator that shows customer loyalty to entrust their funds to the bank (Chochořáková et al., 2015; Arshed & Kalim, 2020; Hanafi, 2021). From the Table 1 below, in the last few years, Bank Danamon recorded quite positive growth of third-party funds during 2017-2020, but there was a decline in 2021 and repeated in Q2 and Q3 2022.

Table 1 Bank Danamon Third-Party Funds

| Third-Party Funds (IDR Bio) | 2022 - Q3 | 2022 - Q2 | 2022 - Q1 | 2021 | 2020 | 2019 | 2018 | 2017 |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Current Accounts | 29,200 | 30,742 | 27,523 | 25,437 | 22,900 | 15,837 | 15,885 | 14,646 |
| Savings | 46,487 | 48,202 | 46,938 | 45,518 | 40,967 | 38,258 | 33,945 | 34,073 |
| Time Deposits | 42,388 | 43,831 | 48,610 | 50,114 | 59,866 | 55,697 | 57,865 | 53,178 |
| Total | 118,075 | 122,775 | 123,071 | 121,069 | 123,733 | 109,792 | 107,695 | 101,897 |
| % | -3.83% | -0.24% | 1.65% | -2.15% | +12.70% | +1.95% | +5.69% | |

Source: Bank Danamon Annual Report 2017-2021 & Financial Statement 2022

The declining trend during the last few periods is an alert for Bank Danamon to be aware of their customers' loyalty since the causes may vary due to the possibility of new entrants' threats. In the current pandemic era, to keep up with the competition and maintain customer loyalty, banks and financial services are implementing some strategies, such as promoting reward programs for customers, providing innovative digital banking, and providing excellent service quality. Keeping customers loyal is a way to support the profitability and sustainability of banking companies (Keni et al., 2015).

Customer Reward Program (CRP)

The Customer Reward Program is a structured marketing strategy to drive customers to continue using the business services associated with each program. Previous research has identified various types of customer rewards, such as material value (monetary vs. non-monetary rewards), aspiration value (luxury vs. necessity), brand-reward compatibility (related/unrelated), and timed-reward (direct vs. delayed) (Bijmolt et al., 2011).

There are two types of customer reward programs, namely the Frequency Reward Program (FRP) and the Customer Tier Program (CTR) (Kopalle et al., 2012). Implementing the customer reward program is highly dependent on the type of industry. FRP is generally used in transaction-based businesses that emphasize repeated purchases that offer rewards after a particular frequency of purchase transactions. In contrast, CTR is generally used in a relationship and commitment-based businesses, such as banking. However, the need for more research on the effectiveness of customer reward programs makes this subject require further exploration.

According to Kotler and Armstrong (2014), a customer reward program is the process of building and maintaining long-term, profitable relationships with customers through value-added and customer-satisfying services. There are three indicators to measure the benefits of the customer reward program for customers, which are as follows:

- (1) Financial benefits, include cost savings customers incur after meeting a certain frequency or number of purchases. The most often implemented example is the provision of rewards in the form of special discounts if customers make frequent purchases or if customers buy in large quantities. In its implementation in the banking industry, financial benefits are generally in the form of additional cash back or the provision of a special rate or higher interest if the customer increases the nominal savings or time deposit at the bank.
- (2) Social benefits, are benefits created by providing incentives to customers and personal relationships or good social ties between customers and the company or bank, and with other customers.
- (3) Structural ties, namely building profitable long-term relationships with customers by providing structural ties to make it easier for customers to transact and communicate with the company.

The use of the customer reward program as a method of relational marketing is becoming popular to encourage customer loyalty (Magatef & Tomalieh, 2015). The implementation of customer reward programs can provide benefits for both customers and companies. To build customer loyalty, companies use several types of loyalty programs. Not infrequently, the company also provides categorization to

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customers in the form of giving tiers such as Platinum, Gold and Silver, generally based on purchase volume (Taylor et al., 2015). Customer categorization is also applied to Bank Danamon, the object of research in this study, namely dividing the types of customers according to their amount of funds or the asset under management (AUM) in the bank.

According to Nandal et al.,(2020), many advantages can be obtained from implementing the customer reward program, such as increasing customer loyalty, increasing customer lifetime value (CLV), building good relations with customers, and improving the business' reputation. The customer reward program is also one of the surefire strategies to win back the customers. In addition, by implementing a customer reward program, banks can encourage customers to increase their spending levels, thus creating more profits. The customer reward program can also open up opportunities to acquire new customer bases based on the recommendations of existing customers, thereby expanding the scope of the customer database according to the desired segmentation. Based on the above elaboration on the relationship between customer reward programs and customer loyalty, the following hypothesis is formulated:

H1: Customer reward program positively affects customer loyalty

Service Quality (SQ)

According to Kotler & Armstrong (2014), service is any action or activity offered by one party to another, which is essentially intangible and does not result in the ownership of anything. Its production may or may not be linked to a single physical product. Service is producers' behavior to meet the needs and desires of consumers to achieve satisfaction. Kotler also said that this behavior could occur before and after the transaction. In general, a high standard of service will result in high satisfaction and frequent repurchase (Kotler & Armstrong, 2014).

The measure of how well the services provided meet the expectations of existing services is called service quality (Ramseook, 2010). Service quality means that a good quality image is not based on the point of view or perception of the service provider but based on the customer's point of view or perception (Yunus & Budianto, 2014). Good service quality, or in other words, superior service will affect the emergence of customer loyalty.

Meanwhile, service quality has been the focus of many studies since its initial conceptualization. With the company providing a good level of service quality, it will create a competitive advantage. Service quality becomes the result of the comparison evaluation process between the perceived service and the expected service. Service quality has also been described as a form of attitude because it is a global assessment of the superior services provided by an organization (Parasuraman, et al., 1985). Previous research conducted by Parasuraman et al. (1985) has classified various dimensions of service quality, five of which are most suitable for the service industry as follows:

a) Responsiveness

It is a responsive attitude to listen and respond to consumers to satisfy consumers. Able to help and provide fast and precise service to consumers with delivery without a clear reason causing a negative perception of service quality.

b) Assurance

It is the knowledge and ability of company employees to foster consumer confidence in the company.

c) Empathy

It is the ability of the company and its employees to provide personal attention to their customers by trying to understand the wishes of consumers.

Behaviors that indicate loyalty appear outside brand buying activities, such as word of mouth, recommendations, consumer interactions, blogging, writing reviews, and other similar activities. These behaviors appear when the service received by the customer has met their expectations or needs; in other words, the service quality of the service provider is superior. Previous research conducted by Puriwat & Triropsakul (2014) found that service quality affects customer loyalty. The individuals or customers involved are likely to develop a better attitude toward the product, company, or brand, leading to loyalty to the entity (Vivek et al., 2014; So et al., 2014).

Service quality has long been an important factor in customer loyalty. Newer research shows that its role is more important than ever and will continue to grow in the future (Potter et al. (1994) in Magatef, et al., 2015). Customer loyalty gives a business good reputation and market competitiveness (Singh & Imran, 2012). Customer loyalty is widely accepted because it is a fundamental goal in relational marketing and closely related to service quality. Based on the elaboration of the relationship between service quality and customer loyalty, the following hypothesis is formulated:

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H2: Service quality positively affects customer loyalty

Digital Banking Service (DBS)

Businesses with digital banking services transact faster than traditional banking processes; therefore, digital banking transaction modes become faster and more reliable (Alalwan et al., 2017). Global digitization, internet, and mobile phone facilities are helping financial institutions introduce new ways of banking services that are much easier for customers and bankers to provide excellent service to their customers (Alkhowaiter, 2020). According to the official website of the OJK (Otoritas Jasa Keuangan, 2017), there are several types of digital banking services. Digital banking, in general, is often referred to as e-banking because it can make it easier for customers to carry out financial transactions through various delivery channels such as internet banking, phone banking, and SMS banking. Digital banking is a consequence of internet business in banking and financial organizations. Banks that can provide online banking services facilitate banks to build and expand relationships with customers.

In the digital banking era, digital banking trends affect consumer behavior. Customer loyalty is closely related to high-tech digital banking facilities and business performance (Khattoon et al., 2020). Digital banking allows banks to develop customer services, provide an alternative for banks to provide information directly to customers, and reduce direct interaction at branch offices to apply physical distancing, especially during the COVID-19 pandemic. Today customers expect the same level of interaction through digital banking and social media.

For customers, digital banking increases the possibility of taking more part in the service consumption process and affects the performance of financial services. Through digital banking, most customers perform services digitally, not through branch personnel (Rust & Lemon, 2001). Since digital banking is not limited by location or time, the services provided on the Internet can be used at any time from an off-site location. Thus, customers do not need to travel to the bank to get services. Digital banking allows customers to obtain information about various competing services, which makes it possible to compare them and then choose the service that best suits their needs (Peterson et al., 1997). Therefore, creating customer loyalty will be more achievable in online banking than in conventional banking (Muphy, 2000).

Financial services institutions like banks mainly focus on maintaining their existing customers and in doing this, they are working on the services provided, developing more innovative use of technology, revisiting processes to improve customer experience and ensuring that organizational culture supports retention (Mary et al., 2007 in Ibojo, 2015).

Following the elaboration of the relationship between digital banking services and customer loyalty, the following hypothesis is formulated:

H3: Digital banking services affect customer loyalty

Customer Loyalty (CL)

Customer loyalty is one of the critical aspects for the success of various businesses because attracting new customers requires more significant effort and cost than retaining existing customers (Singh & Imran, 2012). Singh & Imran (2012) suggest that an increase in customer retention can increase profits by more than 25%. Relational marketing, which is generally applied to the service sector, especially banking, aims to create customer lifetime value because when customers already have a close relationship with a company, customers will tend to ignore other competitors' offers. Loyal customers tend to ignore competitors' offers because it gives them greater efficiency in decision-making, reduces information processing, achieves greater cognitive consistency in decisions, and reduces the perceived risk associated with future decisions (Singh et al., 2012).

Customer loyalty can be indicated based on buying behavior. Attributes of customer loyalty, according to Griffin (2015), include:

1. Makes regular repeat purchases, namely making regular repeat purchases, bound to constantly buy and use certain products or services in the long term.
2. Purchase across product and service lines, namely buying between product and service lines. Often called cross-selling, where customers buy other types of products from the same company or brand.
3. Refers to others, which refers to or recommends products to others. This level is the highest in the company's relationship with customers, where customers become partners to promote the company to the surrounding environment, which is a sustainable advantage for the company.

Based on the hypotheses formulation and literature review, the research model is depicted as follows:

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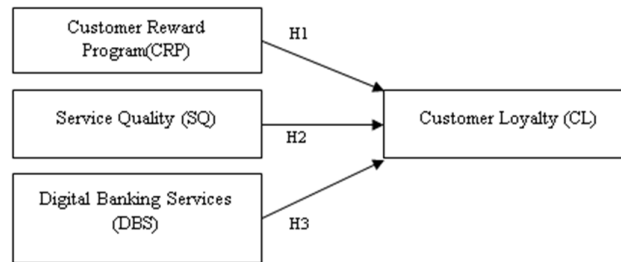


Figure 1. Research Model

Table 2 Operational Definitions of Variables and Indicators

| Variable | Operational definition | Indicator |
|-------------------------------|--|--|
| Customer Reward Program (CRP) | Customer reward program is the process of building and maintaining long-term, profitable relationships with customers by providing value-added and customer-satisfying services (Kotler & Armstrong, 2014, Zeithaml et al., 1996). | 1. Financial benefits 2. Social benefits 3. Structural ties |
| Service Quality (SQ) | Service quality is the result of a comparison evaluation process between the perceived service and the expected service (Parasuraman et al., 2015). | 4. Responsiveness 5. Assurance 6. Empathy |
| Digital Banking Service (DBS) | Digital banking is a consequence of internet business in banking and financial organizations. Banks that can provide online banking services facilitate banks to build and expand relationships with customers (Alalwan et al., 2017). | 7. Internet banking 8. Phone banking 9. SMS banking |
| Customer Loyalty (CL) | Customer Loyalty is a consumer's commitment to a market based on a positive attitude and is reflected in consistent repeat purchases (Kotler & Armstrong, 2014; Griffin, 2005). | 10. Regular repeat purchases 11. Purchase across other products 12. Refers to others |

2. METHOD

This study applies quantitative inferential research to examine the influence significance of independent variables (customer reward program, service quality, digital banking services) on the dependent variable (customer loyalty). The data used in this study was primary data sourced from questionnaires distributed to the existing customers of Bank Danamon. The respondents' criteria include being a customer of Bank Danamon for at least one year, having participated in one or several reward programs, and having used digital banking facilities. The data was collected and analyzed from June to September 2022, and 150 valid responses were obtained. The required sample size that was regarded sufficient and proper for conducting multivariate regression analysis using SPSS 26.0 ranged between 30 to 500 (Roscoe, 1975 in Sekaran, 2003), or at least 15 to 20 times greater than the number of variables (Hair et al., 2006). Secondary data were obtained from published journals, books, and other information from online sources. Furthermore, the sample size was determined using a 95% confidence level and a 5% margin of error.

3. RESULT AND DISCUSSION

The data for this research was collected by conducting an online survey in which each respondent was required to answer some questionnaire items. The questionnaire was divided into two parts. The first part of the questionnaire included respondents' characteristics such as gender, age, education, occupation, personal income, and primary banks. The second part consisted of questions related to the variables examined in this study, including customer reward programs, service quality, and digital banking services.

Table 2 summarizes the descriptive statistics, which can be inferred that the majority of the respondents were females (52%), aged 25 to 30 years (70%), undergraduate (94%), private employees (86%), earned between IDR 3.500.000 to 7.500.000,- per month (USD/IDR 15.247 as of 30 September 2022) and mainly used BCA as their primary bank (28%).

Table 2 Sample Characteristics (n = 150)

| Variable | Category | Frequency | Percentage |
|-------------------------------|--------------------------|-----------|------------|
| Gender | Male | 72 | 48 |
| | Female | 78 | 52 |
| Age | 25-30 | 105 | 70 |
| | 31-35 | 33 | 22 |
| | 36-40 | 12 | 8 |
| Education | Undergraduate | 141 | 94 |
| | Postgraduate | 9 | 6 |
| Occupation | Government Employees | 12 | 8 |
| | Private Employees | 129 | 86 |
| | Others | 9 | 6 |
| Personal Monthly Income (IDR) | < 3.500.000 | 18 | 12 |
| | 3.500.000 - < 7.500.000 | 63 | 42 |
| | 7.500.000 - < 10.000.000 | 48 | 32 |
| | >10.000.000 | 21 | 14 |
| Primary banks | BCA | 42 | 28 |
| | Danamon | 35 | 23 |
| | BNI | 22 | 15 |
| | Permata | 18 | 12 |
| | CIMB Niaga | 15 | 10 |
| | DBS | 11 | 7 |
| | Others | 7 | 5 |

The constructs and question items for each concept in this study were adapted and modified from prior studies. There were four constructs utilized. First, customer reward programs were examined using three measures, including financial benefits, social benefits, and structural ties drawn from Kotler & Armstrong (2014) and Zeithaml et al. (1996). Second, service quality was tested using three indicators: responsiveness, assurance, and empathy, adapted from Parasuraman et al. (2015). Third, questions from Alalwan et al. (2017) were adapted to measure the digital banking services variable. Last, customer loyalty was measured by questions adapted from Griffin (2005) and Kotler & Armstrong (2014). A 5-point Likert scale was used in this study, with responses ranging from 1 (strongly disagree) to 5 (strongly agree), obtaining respondents' ratings of each commentary representing indicators and variables tested in this study. Table 4 summarizes the mean and standard deviation for each question item to measure each variable.

Table 4 Descriptive Statistics

| Constructs/ Questionnaire Items | Mean | Std Dev |
|--|-------|---------|
| Customer Reward Program | | |
| CRP1 : Reward programs benefit me financially | 3.953 | 0.979 |
| CRP2 : I build a good relationship with bank through reward programs | 4.267 | 0.994 |
| CRP3 : I get easier banking facilities by using reward programs | 3.873 | 1.154 |
| Service Quality | | |
| SQ1 : Banking staffs are responsive to my financial service needs | 3.760 | 0.932 |
| SQ2 : Bank services ensure my financial needs | 3.627 | 0.973 |
| SQ3 : Bank staffs are empathetic to my financial needs | 3.573 | 0.999 |
| Digital Banking Services | | |
| DBS1 : The internet banking services are quite satisfactory | 3.127 | 1.154 |
| DBS2 : The phone banking services are quite satisfactory | 3.300 | 1.048 |
| DBS3 : The SMS banking services are quite satisfactory | 3.053 | 1.175 |
| Customer Loyalty | | |
| CL1 : I use banking services regularly and repeatedly | 3.540 | 0.987 |
| CL2 : I purchase across other services provided by the bank | 3.507 | 0.961 |
| CL3 : I refer and recommend banking services I use to other people | 3.467 | 0.994 |

This study used Statistical Package for Social Sciences (SPSS) 26.0 software to test the hypotheses. To begin with, preliminary data analysis was carried out, including validity test to examine whether or not the indicators measure the variable, and reliability test to examine the reliability of the questionnaire. Corrected Item Total Correlation is used to analyze the validity of variables. The variable is valid if the r-statistic of each indicator is greater than the r-table in a positive value (Hair, et al, 2006). The number of samples used determines the value of the r-table. The number of samples used in this study was n=150 samples. Therefore, the r-table value is 0.1603, which is taken from the r-table list for n=150 with a significance level of 5% ($\alpha = 0.05$). The results of the validity test are presented in the table below. From the table, all r-statistical values are higher than the r-table values (0.159). Thus, it can be concluded that all indicators of each variable used in this study are valid. The indicator correctly measures the variable.

Table 5 Validity Test Results

| Variable | Indicator | Code | r statistics | r table | Statement |
|--------------------------|--------------------------------|------|--------------|---------|-----------|
| Customer Reward Program | Financial benefits | CRP1 | 0.535 | 0.159 | Valid |
| | Social benefits | CRP2 | 0.478 | 0.159 | Valid |
| | Structural ties | CRP3 | 0.436 | 0.159 | Valid |
| Service Quality | Responsiveness | SQ1 | 0.652 | 0.159 | Valid |
| | Assurance | SQ2 | 0.668 | 0.159 | Valid |
| | Empathy | SQ3 | 0.699 | 0.159 | Valid |
| Digital Banking Services | Internet banking | DBS1 | 0.668 | 0.159 | Valid |
| | Phone banking | DBS1 | 0.672 | 0.159 | Valid |
| | SMS banking | DBS1 | 0.624 | 0.159 | Valid |
| Customer Loyalty | Regular repeat purchases | CL1 | 0.664 | 0.159 | Valid |
| | Purchase across other products | CL2 | 0.706 | 0.159 | Valid |
| | Refers to others | CL3 | 0.730 | 0.159 | Valid |

The reliability or consistency of the questionnaire in this study was measured by calculating Cronbach's Alpha (α). Cronbach's alpha test is used to see if multiple-question Likert scale surveys are reliable even if the surveys were conducted many times. The indicator is reliable when Cronbach's Alpha value is higher than 0.6 (Hair et al., 2006). The results of the reliability test are as follows.

Table 6 Reliability Test Results

| Variable | Cronbach's Alpha Based on Standardized Items | Statement |
|--------------------------|--|-----------|
| Customer Reward Program | 0.845 | Reliable |
| Service Quality | 0.902 | Reliable |
| Digital Banking Services | 0.850 | Reliable |
| Customer Loyalty | 0.888 | Reliable |

Table 6 presents Cronbach's Alpha values for the customer reward program, digital banking services, service quality, and customer loyalty variables. Cronbach's Alpha value of each variable is greater than 0.6. Thus, all variables used in this study are reliable, meaning that the indicators for the customer reward program, digital banking services, service quality, and customer loyalty variables are unbiased and consistent in measuring variables.

This study used classical assumption tests that including normality test, homoscedasticity test, and multicollinearity test. The normality test was carried out to analyze the data population, whether it was normally distributed or not. Normality of the data can be examined by performing the Kolmogorov-Smirnov test. The results of the Kolmogorov-Smirnov test are presented in Table 7 below.

Table 7 Kolmogorov-Smirnov Test Results

| Variable | Standard | Asymp.Sig. | Statement |
|-----------------|----------|------------|-----------|
| CRP, DBS, SQ*CL | 0.05 | 0.200 | Normal |

According to the Kolmogorov-Smirnov test, the data is considered to be normally distributed if the Asymp. Sig. (2-tailed) was >0.05. The results of the Kolmogorov-Smirnov test conducted in this study showed the Asymp. Sig. value was 0.200; therefore the data was normally distributed.

Another classical assumption test used in this study was the homoscedasticity test. The purpose is to find out whether there will be a similarity of residual variance from one observation to another in a regression model. The data of a study is good if it is homogeneous. The homoscedasticity test was also carried out by calculating and testing the Sig. value, whether it was greater than or less than 0.05. The data is considered homogeneous or not affected by heteroscedasticity if the value of Sig. non-standardized residual is greater than 0.05. Based on the Table 7 below, the significance value of all variables is greater than 0.05; therefore it can be inferred that the research data is homogeneous.

Table 8 Result of Spearman Rho Test

| Independent Variable | Dependent Variable | Significance | Critical Value | Statement |
|--------------------------|--------------------|--------------|----------------|-------------|
| Customer Reward Program | Customer Loyalty | 0.417 | 0.05 | Homogeneous |
| Service Quality | Customer Loyalty | 0.651 | 0.05 | Homogeneous |
| Digital Banking Services | Customer Loyalty | 0.890 | 0.05 | Homogeneous |

Lastly, the other classical assumption test in this study was the multicollinearity test. The multicollinearity test examines whether the regression model has a correlation or not between the independent variables. If there is a correlation, then multicollinearity exists. The multicollinearity test was measured by the value of tolerance and Variance Inflation Factor (VIF). The research model is considered free from multicollinearity if the tolerance value is greater than 0.10 and the VIF is less than 10 (Ghozali, 2006). The results of the multicollinearity test are presented in the Table 9 below.

Table 9. Multicollinearity Test Results

| Model | Tolerance | VIF | Statement |
|----------|-----------|-------|----------------------|
| CRP → CL | 0.834 | 1.199 | No Multicollinearity |
| SQ → CL | 0.737 | 1.375 | No Multicollinearity |
| DBS → CL | 0.854 | 1.170 | No Multicollinearity |

Based on the table above, it can be inferred that the tolerance value of all independent variables is greater than 0.10 and the VIF value of all independent variables is less than 10. Thus, it is concluded that the regression model between the independent and dependent variables does not have multicollinearity.

This study employed multiple linear regression analysis to test the hypotheses. Multiple linear regression analysis determines the linear relationship between one dependent variable and several independent variables by estimating the regression coefficient for the straight-line equation. Multiple regression analysis was used in this study to test the significance of the independent variable on the dependent variable, resulted in three different tests, namely coefficient determination or R²test, F-test, and t-test. The R² test was conducted to examine how significant the independent variables simultaneously affect the dependent variable, as indicated by the percentage of the value. F-test was used to examine whether the independent variables simultaneously and significantly affect the dependent variable. The t-test was used to see if the hypothesis was accepted or rejected. The results summary of the regression analysis is presented in Table 10.

The standardized regression equation expresses a positive relationship between each independent variable and the dependent variable. When the ratings of the customer reward program, service quality, and digital banking services increase, therefore the ratings of customer loyalty will also increase.

The R-Squared (R²) indicates how much the independent variables explain the variation of a dependent variable in a regression model. The R² is a measure of the goodness of fit of a model. In regression, the R² coefficient of determination is a statistical measure of how well the regression predictions approximate the actual data points.

The F-significant value determines whether or not the independent variables significantly and simultaneously affect the dependent variable. The independent variables will significantly and simultaneously affect the dependent variable if the F-significant value is less than 0.005. Otherwise, the independent variables will not significantly and simultaneously affect the dependent variable if the F-significant value is greater than 0.005.

The t-significant value determines the statistical significance of the regression coefficients of each variable. t-test was used to measure H1 to H4. The hypothesis will be accepted if the t-significance level of each calculated variable is less than 0.05. Otherwise, if the significance level of each calculated variable is greater than 0.05, therefore the hypothesis is rejected.

Table 10. H1-H4 . Multiple Regression Hypothesis Testing

| Hypotheses | R ² | adj. R ² | F-Sig. Value | Std.Beta Coeff. | t-Sig Value | Statement |
|---|----------------|---------------------|--------------|-----------------|-------------|-----------|
| CRP, SQ, DBS *CL | 0.475 | 0.464 | 0.000 | | | |
| H1 Customer Reward Program significantly affects Customer Loyalty | | | | .118 | .075 | Rejected |
| H2 Service Quality significantly affects Customer Loyalty | | | | .065 | .359 | Rejected |
| H3 Digital Banking Services significantly affect Customer Loyalty | | | | .646 | .000 | Accepted |

Based on Table 10, the R² was 0.475 and the adjusted R² value was 0.464. It can be inferred that customer reward program, service quality, and digital banking services contributes to significantly affect consumer loyalty by 47.5%, while the remaining 52.5% were other factors or variables that were not examined in this study. The F-Significant value was .000, which is less than 0.005. Therefore, the independent variables namely customer reward program, service quality, and digital banking services significantly and simultaneously affect customer loyalty.

Furthermore, the t-significant value for the customer reward program was 0.075, or greater than 0.05, with a significance level of 5%. Thus, the reward program does not significantly affect customer loyalty, so H1 is rejected. Similarly, the t-significant value for service quality was 0.359, or greater than 0.05. Therefore, it can be inferred that service quality does not significantly affect customer loyalty, so H2 is rejected. Otherwise, the t-significant value for digital banking services was 0.000 or smaller than 0.05. Thus, the digital banking services significantly affect customer loyalty, so H3 is accepted.

From the hypothesis testing, it is found that digital banking services significantly affect customer loyalty. This research findings support the previous studies by Khatoon et al., (2020), which confirmed that customer loyalty is closely related to high-tech digital banking facilities and business performance since digital banking enables alternatives for customers to do transactions easily in the palm of their hands. For customers, digital banking increases the possibility of taking more part in the service consumption process and affects the performance of financial services. Digital banking allows customers to obtain information about various competing services, which makes it possible to compare them and then choose the service that best suits their needs (Peterson, et al., 1997). Therefore, creating customer loyalty will be more achievable in online banking than in conventional banking (Muphy, 2000).

On the other hand, this study found that service quality does not significantly affect customer loyalty. This finding follows findings from Rust & Lemon (2001), because most customers perform services not by bank personnel but rather through digital banking; especially during the COVID-19 pandemic, where physical interactions are minimized and lead to digital services as alternatives.

Similarly, the hypothesis testing also showed that the customer reward programs do not significantly affect customer loyalty, which was opposite to the findings of previous research by Magatef & Tomalieh (2015). Apart from the various types of customer reward programs to build customer loyalty, only sometimes the programs implemented are on target or do not result as expected. The main reasons for this phenomenon include the lack of relevance of rewards to loyalty, rigid reward structures, and poor quality customer service (Magatef & Tomalieh, 2015). Therefore, customer reward programs need to be designed with more targeted rewards and differentiated according to the classification or categorization of target customers. The customer reward programs need to provide greater value by rewarding the best customers to encourage higher spending. Therefore, companies need to understand customer needs and behavior by creating customer profiles with relevant data about customer interactions to have a complete picture of customer preferences.

4. CONCLUSION

The results of this research implied that digital banking services become a significant factor in affecting customer loyalty toward bank, while reward programs and service quality otherwise. Therefore, to increase customer loyalty Bank Danamon must focus on providing excellent digital banking services to their customers. By providing user-friendly but sophisticated digital banking services, customers will be able to perform services to them and effortlessly use these digital services for doing their transactions. This research has several limitations. First, it does not specifically examine the specific types of reward programs, service quality, and digital banking facilities, so that the direction for further research is to describe specifically the types of reward programs implemented in banks, explain in detail the types of banking services, as well as various digital banking service referred. Second, this study was only specific to Bank Danamon as the object of research, while the rewards programs, digital banking, and service qualities may vary across banks. Therefore, further research can refer to this study using broader samples from various banks or other financial services.

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