

ABSTRACT

The sustainability of Islamic banking services depends not only on the ability of Islamic banks to attract new customers but also on their ability to retain existing customers and encourage continued service usage. This study aims to analyze the role of customer retention in mediating the effects of sharia compliance, digital financial literacy, and customer engagement on continuance intention among Millennials and Generation Z customers of Islamic commercial banks in Central Java.

This study employed a quantitative explanatory approach using a structured questionnaire administered to 250 active Islamic commercial bank customers selected through purposive sampling. The research instrument used a seven-point Likert scale, while the data were analyzed using covariance-based Structural Equation Modeling (SEM) with AMOS. The results indicate that sharia compliance, digital financial literacy, and customer engagement have positive and significant effects on customer retention. Customer retention also has a positive and highly significant effect on continuance intention. Furthermore, customer retention significantly mediates the effects of sharia compliance, digital financial literacy, and customer engagement on continuance intention. In contrast, sharia compliance does not have a significant direct effect on continuance intention.

These findings indicate that customer retention serves as an important mechanism linking sharia compliance, digital financial literacy, and customer engagement with continuance intention. In particular, the effect of sharia compliance on continuance intention occurs fully through customer retention. The findings support the perspective of Expectation Confirmation Theory by demonstrating that continuance intention is shaped through positive post-use experiences and sustained customer relationships. Therefore, Islamic commercial banks need to integrate sharia compliance, digital capability, and meaningful customer engagement into a consistent customer experience to strengthen customer retention and sustain long-term service usage.

Keywords: *Sharia Compliance; Digital Financial Literacy; Customer Engagement; Customer Retention; Continuance Intention; Expectation Confirmation Theory*