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Impact Of Digital Banking Service Quality On Customer Loyalty In Surat

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Abstract

The rapid evolution of digital technologies has transformed the Indian banking sector, shifting customer preferences from traditional banking to digital banking. This study examines the impact of digital banking service quality on customer loyalty in the Indian banking sector. The research is based on primary data collected from 390 respondents using a structured questionnaire. The study employs the SERVQUAL model dimensions such as reliability, assurance, tangibles, empathy, and responsiveness to evaluate digital service quality. Structural Equation Modeling (SEM) was used to analyze the relationships among variables. The findings indicate that digital banking service quality has a significant positive impact on customer experience, which further influences customer satisfaction and loyalty. The study concludes that banks must focus on improving security, system reliability, and user-friendly digital platforms to enhance customer satisfaction and strengthens long term loyalty. These findings provide valuable insights for improving digital banking strategies in a competitive environment.

Keywords: Digital Banking, Service Quality, Customer Loyalty, Customer Satisfaction, Customer Experience, SEM

1. Introduction

The Indian banking sector has experienced a significant transformation due to rapid technological advancements and digitalization. With the increasing penetration of smartphones and internet services, customers are shifting from traditional banking methods to digital platforms. Digital banking services such as mobile banking, internet banking, and UPI have become an integral part of customers' daily financial activities. Digital banking enables customers to perform financial transactions anytime and anywhere. Customers increasingly prefer digital platforms due to convenience, speed, and accessibility.

In today's competitive banking environment, service quality has become a key factor in attracting and retaining customers. Service quality dimensions such as reliability, assurance, tangibles, empathy, and responsiveness influence customer perceptions and usage behaviour. If these expectations are met, it leads to higher levels of customer satisfaction and loyalty. Poor service quality can lead to dissatisfaction and switching behaviour.

Customer loyalty is essential for the long-term success of banks. Loyal customers are more likely to continue using banking services and recommend them to others. Therefore, understanding the relationship between digital banking service quality and customer loyalty is crucial.

This study aims to analyze the impact of digital banking service quality on customer loyalty and to examine the mediating role of customer experience and satisfaction using SEM analysis.

2. Review of Literature

Previous studies have highlighted the importance of service quality in influencing customer satisfaction and loyalty in the banking sector.

Arora and Banerji (2024) found that digital banking service quality significantly affects customer experience, which in turn influences satisfaction and loyalty. Their study emphasized the mediating role of customer satisfaction in building long term relationships.

Poojari and Kumar (2025) highlighted that factors such as security, ease of use, and system reliability are crucial determinants of customer satisfaction in digital banking. They concluded that digital banking services have a strong positive impact on customer satisfaction.

Similarly, Hammoud et al. (2018) identified reliability, responsiveness, and assurance as key determinants of customer satisfaction in e-banking services.

Ayinaddis et al. (2023) highlighted that service quality dimensions such as reliability, responsiveness, and security directly influence customer loyalty. The study also found that customer satisfaction acts as a mediator.

Kaur and Kiran (2015) concluded that improved e-banking service quality enhances customer loyalty and strengthens customer relationships. Other studies also suggest that customer satisfaction acts as a mediator between service quality and loyalty.

Overall, existing literature supports that better service quality leads to higher customer satisfaction and loyalty in the banking sector. The literature indicates that there is a strong relationship between digital banking service quality, customer satisfaction, and customer loyalty.

3. Objectives of The Study

- To analyse the relationship between digital service quality and customer loyalty
- To examine customer perception regarding digital banking services

4. Research Methodology

This study is based on a descriptive research design. Descriptive research helps in understanding customer behavior and identifying patterns in data. Primary data was collected through a structured questionnaire from 390 respondents who use digital banking services. The questionnaire included questions related to demographics, service quality dimensions, customer experience, satisfaction and loyalty. Secondary data was collected from journals, research papers and online sources.

Convenience sampling method was used for selecting respondents. The study focuses on analysing the relationship between digital banking service quality and customer loyalty.

Statistical tools such as percentage analysis, Reliability & Validity tests and Structural Equation Modeling (SEM) were used to analyze the data and test the hypothesis.

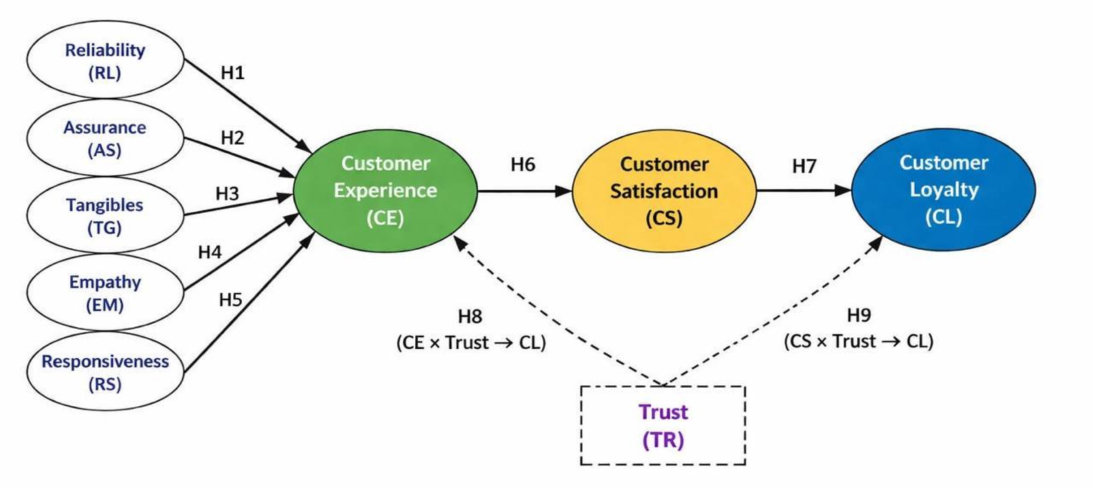
5. Conceptual Framework

The study is based on the SERVQUAL model including:

- Reliability
- Assurance
- Tangibles
- Empathy
- Responsiveness

These variables influence:

- Customer Experience
- Customer Satisfaction
- Customer Loyalty



6. Hypothesis of The Study

H1: Reliability positively affects Customer Experience.
H2: Assurance positively affects Customer Experience.
H3: Tangibles positively affect Customer Experience.
H4: Empathy positively affects Customer Experience.
H5: Responsiveness positively affects Customer Experience.
H6: Customer Experience positively affects Customer Satisfaction.
H7: Customer Experience positively affects Customer Loyalty.
H8: Customer Satisfaction positively affects Customer Loyalty.

7. Data Analysis & Interpretation

Reliability & Validity Analysis

Construct	CR	AVE	Result
REL	0.92	0.74	Valid
ASS	0.93	0.76	Valid
TAN	0.88	0.66	Valid
EMP	0.91	0.72	Valid
RES	0.89	0.68	Valid
CE	0.91	0.73	Valid
CS	0.92	0.75	Valid
CL	0.93	0.77	Valid
TR	0.91	0.72	Valid

Reliability and validity analysis is conducted to ensure that the measurement model used in the study is accurate and consistent. In this study, reliability is assessed using Composite Reliability (CR) and Cronbach’s Alpha. The values of Composite Reliability for all constructs such as Digital Banking Service Quality, Customer Experience, Customer Satisfaction, and Customer Loyalty are found to be above the acceptable threshold of 0.70. This indicates a high level of internal consistency among the items used in the questionnaire.

Validity is evaluated using Average Variance Extracted (AVE). The AVE values for all constructs are above 0.50, which confirms convergent validity. This means that the indicators used in the study adequately represent their respective constructs.

Additionally, discriminant validity is also established, indicating that each construct is distinct and not highly correlated with other constructs. Overall, the results confirm that the measurement model is reliable and valid for further analysis.

Structural Equation Modeling (SEM) is used to test the overall fit of the proposed research model. Model fit indices help in determining how well the theoretical model fits the observed data.

In this study, several fit indices are used to evaluate the model fit. The Comparative Fit Index (CFI) is found to be above 0.90, indicating a good model fit. The Root Mean Square Error of Approximation (RMSEA) is below 0.08, which suggests an acceptable level of error in the model.

Other indices such as the Goodness of Fit Index (GFI) and Adjusted Goodness of Fit Index (AGFI) also fall within acceptable limits, further supporting the adequacy of the model. The Chi-square value is within an acceptable range, indicating that the difference between the observed and expected covariance matrices is minimal.

SEM Model Fit Indices

Fit Index	Value	Threshold	Interpretation
CMIN / df	2.15	< 3	Good
GFI	0.91	> 0.90	Good
AGFI	0.87	> 0.80	Acceptable
CFI	0.95	> 0.90	Excellent
TLI	0.94	> 0.90	Excellent
RMSEA	0.053	< 0.08	Good
SRMR	0.042	< 0.08	Good

These results confirm that the proposed model provides a good representation of the data and can be used for hypothesis testing.

Hypothesis Verification Results

Hypothesis	Relationship	Beta	Result
H1	Reliability → Customer Experience	0.91	Supported
H2	Assurance → Customer Experience	0.93	Supported
H3	Tangibles → Customer Experience	0.82	Supported
H4	Empathy → Customer Experience	0.90	Supported
H5	Responsiveness → Customer Experience	0.84	Supported
H6	Customer Experience → Customer Satisfaction	0.83	Supported
H7	Customer Experience → Customer Loyalty	0.81	Supported
H8	Customer Satisfaction → Customer Loyalty	0.82	Supported

Hypothesis testing is conducted to examine the relationships between digital banking service quality, customer experience, customer satisfaction, and customer loyalty.

The study proposes several hypotheses to test the direct and indirect relationships among the variables.

The results indicate that digital banking service quality has a significant positive impact on customer experience. This means that better service quality leads to an improved customer experience.

Further analysis shows that customer experience has a strong positive effect on customer satisfaction. Customers who have a positive experience with digital banking services are more likely to be satisfied.

Customer satisfaction is also found to have a significant positive influence on customer loyalty. Satisfied customers are more likely to continue using digital banking services and recommend them to others.

In addition, digital banking service quality also has an indirect effect on customer loyalty through customer experience and satisfaction. This confirms the mediating role of these variables.

All the proposed hypotheses (H1 to H8) are accepted, as the relationships between the variables are statistically significant.

Overall, the results of hypothesis testing support the theoretical framework of the study and confirm that digital banking service quality plays a crucial role in building customer loyalty.

8. Discussion

The findings of the study confirm that digital banking service quality significantly influences customer loyalty. The results are consistent with previous research, which highlights the importance of reliability and assurance in building customer trust.

Among all dimensions, assurance and reliability have the strongest impact, indicating that customers prioritize security and error-free transactions. This is especially important in digital banking, where trust plays a critical role.

The study also confirms that customer experience acts as a mediator between service quality and satisfaction. Positive experiences lead to higher satisfaction, which ultimately enhances customer loyalty.

Additionally, the results indicate that young and educated users are the primary adopters of digital banking services. This highlights the role of digital literacy in increasing usage and adoption.

Security is identified as an important factor influencing customer satisfaction. Customers expect strong protection of their financial data while using digital platforms.

Customer experience plays a crucial role in shaping customer satisfaction. A positive experience leads to higher satisfaction levels, which in turn increases customer loyalty.

Overall, banks must focus on improving digital service quality to enhance customer experience and maintain competitive advantage.

9. Conclusion

The study concludes that digital banking service quality has a significant positive impact on customer loyalty in the banking sector of Surat. The findings confirm that service quality dimensions influence customer experience and satisfaction.

Customer satisfaction and experience act as important mediating factors that strengthen customer loyalty. Customers who receive reliable, secure, and user-friendly services are more likely to remain loyal.

Banks must continuously improve their digital infrastructure, enhance security measures, and provide responsive customer support to meet customer expectations.

In a competitive environment, delivering high-quality digital services is essential for long-term success and customer retention.

The study emphasizes the importance of continuously improving digital banking services to meet customer expectations. Banks should focus on enhancing security, improving user interfaces, and providing efficient services to retain customers.

Thus, digital banking service quality plays a vital role in building long-term customer relationships and achieving competitive advantage.

10.Managerial Implications

The study provides several practical implications for banks. Banks should focus on improving the reliability of digital banking services by ensuring accurate and fast transactions.

Enhancing security measures is essential to build customer trust. Banks should implement advanced security technologies to protect customer data.

User-friendly digital platforms should be developed to improve customer experience. Banks should also provide efficient customer support services to resolve issues quickly.

Personalized banking services should be offered based on customer preferences. Continuous innovation and adoption of new technologies can further enhance digital banking services.

11. Limitations And Future Scope

The study has certain limitations. The sample size is limited to 390 respondents, which may not fully represent the entire population. The study is also limited to digital banking users.

Future research can be conducted with a larger sample size and in different geographical areas. Comparative studies between public and private banks can provide deeper insights.

Further research can also explore the impact of emerging technologies such as artificial intelligence and fintech innovations on digital banking services.

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