

## Customer satisfaction and perceived service quality in Nepal's banking sector

**Ashmita Dahal Chhetri**

Asst. Professor, Birendra Multiple Campus, TU

email: [ashmitadahalchhetri@gmail.com](mailto:ashmitadahalchhetri@gmail.com)

<https://orcid.org/0009-0009-3868-1271>

### ABSTRACT

This study examines the variables influencing client satisfaction in the Chitwan of commercial banking in Nepal. With the use of standardized questionnaires, a sample of 250 bank customers was surveyed. The findings demonstrated that banks are thought to provide accurate, timely services along with efficient record-keeping and problem-solving. Regarding the other hand, opinions regarding personnel availability and responsiveness vary. Convenience and accessibility are highlighted by high empathy scores, yet there is a noticeable perceptual difference. While most people agree on the importance of assurance in customer service, perspectives on staff professionalism and confidence differ. Though there is room for development in terms of clarity and multi-channel use, communication on service changes is successful. According to the study, there is a lesser correlation between empathy and customer satisfaction and high positive correlations with assurance, communication, trustworthiness, responsiveness, and reliability. Regression research shows that tangibility has a favorable impact on customer satisfaction, and that reliability, empathy, assurance, communication, tangibility, and credibility have a substantial impact as well. The results highlight how better client retention tactics are required to raise consumer happiness and loyalty.

**Keywords:** Customer satisfaction, responsiveness, tangibility, credibility, empathy, communication, assurance, and reliability

### Introduction

The assessment that clients give to the general excellence or superiority of the services provided by financial institutions is known as perceived service quality. It includes several aspects that, when considered as a whole, have the potential to influence how consumers perceive and experience a brand. Regarding Nepal's banking sector, customer happiness and loyalty are directly impacted by the perceived quality of service, which in turn affects the banks' collective reputation. According to Parasuraman et al. (1988), the five main aspects of service quality that are regularly assessed are tangibles, assurance, responsiveness, consistency, and empathy.

In Nepalese banking, "customer satisfaction" refers to how happy customers are with the services provided by banks. This crucial indicator demonstrates how successfully banks meet or surpass their clients' expectations. Convenience, overall experience, product options, customer service, and service quality all have an impact on consumer satisfaction. In Nepal, tangible indicators of service quality such as communication, empathy, assurance, responsiveness, and consistency have an impact on customer satisfaction. Client satisfaction is increased by well-maintained bank facilities (tangibles), accurate and dependable service (reliability), quick and efficient responses to client inquiries (responsiveness), courteous and professional staff (assurance), and individualized attention to customer requirements (empathy).

The banking industry's adoption of information technology in the twenty-first century has given banking services a new dimension. The widespread use of the internet is directly responsible for this. The banking sector has unavoidably changed to make room for the provision of efficient and timely customer service through contemporary technology-based financial services like mobile banking, ATM service, online banking, and cardless banking. It has been necessary to undergo this change in order to provide these services. Commercial banks are faced with a variety of difficulties in the current dynamic and fiercely competitive corporate climate. These difficulties fall into a number of areas. One of the biggest obstacles the company must overcome is competition.

Customers and the banking sector in Nepal had to wait 65 years, till 2002 A.D., after the founding of Nepal Bank Limited in 1937, before they could start taking use of revolutionary services like electronic banking. This remained the situation until 2002 A.D. Rural-dwelling Nepalese customers continue to face severe barriers to accessing financial services and receiving satisfactory service. The issue at hand is still present today. Because of

this, the main focus of this study is on how banking services affect the quality of services provided and the degree of customer satisfaction in Nepalese commercial banking institutions. Furthermore, it emphasizes the importance of electronic banking's potential in the future in connection to Nepalese commercial banks. On the other hand, almost all of Nepal's banks currently provide online banking.

The most innovative features and a high degree of innovation set these services apart. Finally, it's interesting to note that these financial institutions are extending their reach into rural regions by offering information on the latest developments in information technology to prospective clients. (Khatri, 2017).

### **Statement of the Problem**

Nepal is a small nation that is behind other nations in terms of technology. The general lack of literacy and the restricted access to technology and transportation have all contributed to the underdevelopment of the banking service. Customers usually choose traditional banking services over new financial services because they are more convenient. The rapid advancement of technology and the passage of time allowed individuals to acquire digital literacy, which eventually caused this tendency to fade. The standard of services offered by the banking industry is currently of more interest to the public.

It is undeniable that a growing number of businesses and organizations are concurrently pursuing new business endeavors and grabbing commercial chances. The emergence of this new segment of the banking business has piqued the curiosity of both consumers and bankers over what drives individuals to choose careers in the banking industry. In order to meet the needs of consumers, it is critical to look into and pinpoint the reasons why people choose to use banks and other financial organizations for services.

One of the most crucial aspects of choosing banking methods is the demographics of the clients, including their age, gender, income, and educational attainment. This is on top of the requirements for providing the services and generating customer pleasure. Every step of the daily routine requires the use of financial services, so in order to guarantee client pleasure, swift and reasonably priced services are offered. Because of this, it is critical to have a thorough grasp of the variables that affect how satisfied a client is with the caliber of the banking service. There are several aspects that influence client satisfaction levels, and it is important to take these factors into account when choosing banks and financial institutions.

Currently, it is hard to envision a world without financial services, not just in Nepal but globally as well. In line with the rapid growth of Nepal's banking industry, the country's information technology sector has experienced a substantial metamorphosis. The banking sector previously only used electronic instruments, like mobile banking services. To activate the feature that enables them to use mobile banking services, all customers must physically visit the banks.

Furthermore, in order to perform simple tasks like making withdrawals from balances and verifying statements and balances. This type of action usually results in increased charges for the consumer and is also a time-consuming process. Since the introduction of electronic banking, the quality of services offered by commercial banks and other financial institutions has improved in the Nepalese banking sector. The number of consumers who physically visit banks has decreased dramatically because to exceptionally helpful improvements in information technology and the internet. This enhances service delivery and boosts bank profitability.

Many Nepalese commercial banks have improved the way they provide banking services by implementing technology solutions. Consequently, an increasing number of clients are coming from different parts of the nation. But the bulk of the population in Nepal lacks access to cutting-edge banking services, and there are still many unanswered issues about the quality of banking services in the nation. For this reason, knowing how commercial banks may enhance their offerings is crucial to raising client satisfaction levels. This is due to the fact that keeping customers happy over the long run depends mostly on their happiness. The following research questions are the focus of this study's investigation:

- What connection exists between Nepalese commercial banks' dependability, reactivity, empathy, assurance, and communication?
- What effect does the caliber of banking services have on client satisfaction?

### **Literature Review**

Researchers like Cronin & Taylor (1992) and Taylor & Baker (1994) in particular considered bank service quality as a key need for customer satisfaction and retention in the banking business. After doing a thorough analysis,

Cronin & Taylor (1992) presented empirical evidence to support their claim that high-quality services result in satisfied customers. According to Naceur, S. B., & Omran, M. (2002), customer happiness in banking is determined by the quality of the services provided. As a result of loyal consumers' propensity to use the same service again, business income will eventually rise (Ryan, C., & Cliff, D., 1999).

According to Shanka, T. (2012), there is a positive link between the aspects of service quality and customer satisfaction, supporting the theory put forth in the literature addressing this relationship. The outcomes additionally demonstrated that providing high-quality service has a favorable effect on total client satisfaction. According to Siddiqi, K. O. (2010), as cited in Ghost, J., & Gnanandhas, R. (2011), service quality is positively correlated with customer satisfaction; empathy had the highest positive correlation, followed by assurance and tangibility. The study looked at the applicability of service quality in the retail banking industry in Bangladesh.

However, as noted in Ghost, J., & Gnanandhas, R. (2011), Lo, M. C., Osman, M., Ramayah, T., & Rahim, N. H. A. (2010) discovered that in the Malaysian retail banking sector, assurance and empathy had the greatest impact on customer satisfaction. Zaim, H., Bayyurt, N., & Zaim, S. (2010) discovered that tangibility, reliability, and empathy are significant for customer satisfaction, as cited in Ghost, J., & Gnanandhas, R. (2011). However, Mengi, C. (2009) concluded that assurance and responsiveness are more important.

### **Research Methods**

The causal comparative research design is used in this study. Every client of Chitwan's commercial banks was counted as part of the population. A closed-ended questionnaire was used to collect 250 samples utilizing non-probability sampling strategies, such as the purposive sampling method, in order to meet the study's objectives. Primary sources of data provided the basis for this study.

### **Correlation Analysis**

The degree and direction of a relationship between two or more variables are determined through correlation analysis. It facilitates figuring out how one variable influences another. From -1 to +1, the correlation coefficient, or "r," expresses this relationship. Where a value of +1 denotes a perfect positive correlation, a value of -1 denotes a perfect negative correlation, and a value of 0 denotes no correlation. A negative correlation, on the other hand, indicates that when one variable rises, the other lowers. If the correlation coefficient is around zero, there is little link between the variables. Correlation analysis is a useful tool in the social sciences, finance, and economics to comprehend trends, establish forecasts, and determine causal correlations.

**Table 1 : Correlation Analysis**

		Customer Satisfaction	Reliability	Empathy	Assurance	Communication	Tangibility	Credibility	Responsiveness
Customer Satisfaction	Pearson Correlation	1	-0.074	-.206**	.819**	.164**	.804**	.285**	.786**
	Sig. (2- tailed)		0.245	0.001	0.000	0.009	0.000	0.000	0.000
Reliability	Pearson Correlation		1	.370**	-0.060	.303**	0.064	.205**	0.061
	Sig. (2- tailed)			0.000	0.341	0.000	0.315	0.001	0.337
Empathy	Pearson Correlation			1	-.196**	.418**	-0.016	.540**	0.005
	Sig. (2- tailed)				0.002	0.000	0.803	0.000	0.936
Assurance	Pearson Correlation				1	.146*	.751**	0.112	.732**
	Sig. (2- tailed)					0.021	0.000	0.078	0.000
Communication	Pearson Correlation					1	.278**	.354**	.264**
	Sig. (2- tailed)						0.000	0.000	0.000
Tangibility	Pearson Correlation						1	-0.017	.967**
	Sig. (2- tailed)							0.785	0.000
Credibility	Pearson Correlation							1	-0.026
	Sig. (2- tailed)								0.682
Responsiveness	Pearson Correlation								1
	Sig. (2- tailed)								

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

(Source: SPSS)

Table 1 shows the correlation between customer satisfaction and banking independent variables. Strongest positive correlation ( $r = 0.819$ ,  $p < 0.01$ ) exists between reliability and customer satisfaction. This suggests that customer satisfaction rises as customers trust the bank to provide consistent and reliable services. Service reliability includes accuracy, consistency, and dependability, which build customer trust and loyalty.

Even though empathy has a weaker correlation ( $r = 0.164$ ,  $p < 0.01$ ), it still significantly impacts customer satisfaction. It appears that customers value empathetic bank employee interactions that address their needs and concerns with care. Positive emotional connections and satisfaction increase with empathy. A strong positive correlation exists between assurance and customer satisfaction ( $r = 0.804$ ,  $p < 0.01$ ). It's essential for customers to trust the bank to meet their needs and deliver on its promises. Assurance includes competence, credibility, and reliability in service delivery, which build customer trust.

A positive correlation ( $r = 0.285$ ,  $p < 0.01$ ) indicates that communication significantly impacts customer satisfaction. Effective verbal and nonverbal communication is essential for information sharing, customer service, and relationship building. Understanding and reducing uncertainty through clear, timely, and transparent communication improves customer satisfaction. A strong positive correlation exists between credibility and customer satisfaction ( $r = 0.786$ ,  $p < 0.01$ ). Customer satisfaction is strongly influenced by a bank's credibility, which includes trustworthiness, integrity, and transparency. When the bank appears credible and trustworthy in its actions and communications, customers are happier.

Significant positive correlation exists between responsiveness and customer satisfaction ( $r = 0.286$ ,  $p < 0.01$ ), but it is weaker than other factors. A bank's responsiveness shows its ability to handle customer inquiries, complaints, and feedback. Responsiveness is important, but its slightly weaker correlation suggests that reliability, empathy, assurance, communication, and credibility may be more influential on satisfaction. Tangibility does not affect customer satisfaction ( $r = -0.074$ ,  $p > 0.05$ ). While visual aspects of the bank's services, like facilities and equipment,

are important, they have little direct impact on satisfaction.

### Regression Analysis

A statistical method for simulating the relationship between a dependent variable and one or more independent variables is regression analysis. Knowing the relationship between changes in the independent variables and changes in the dependent variable is helpful. In order to forecast the value of the dependent variable, the method calculates the coefficients of the independent variables. For the purposes of forecasting, prediction, and deciphering the underlying relationships in data, regression analysis is frequently employed. It gives researchers information about the direction and strength of the relationships between variables, enabling them to determine causality and make well-informed decisions. Regression analysis comes in a variety of forms, with polynomial, logistic, and linear regression being the most appropriate for varying kinds of data and research questions.

**Table 2 : Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.966 <sup>a</sup>	0.933	0.931	0.15991

a. Predictors: (Constant), Responsiveness, Empathy, Reliability, Communication, Credibility, Assurance, Tangibility

(Source: SPSS)

Table 2 shows a regression analysis how responsiveness, empathy, reliability, communication, credibility, assurance, and tangibility impact customer satisfaction. A strong correlation coefficient (R) of 0.966 between the predictors and customer satisfaction is shown in the model. The model's R Square value of 0.933 suggests that these predictors explain 93.3% of customer satisfaction variability. A slightly lower Adjusted R Square value of 0.931 accounts for the number of predictors in the model and the sample size, confirming that the model remains robust and reliable after adjusting for potential over fitting. A small average distance from the regression line is indicated by the estimate's standard error of 0.15991.

**Table 3 : ANOVA Results**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	86.743	7	12.392	484.618	.000 <sup>b</sup>
	Residual	6.188	242	0.026		
	Total	92.931	249			

a. Dependent Variable: Customer Satisfaction

b. Predictors: (Constant), Responsiveness, Empathy, Reliability, Communication, Credibility, Assurance, Tangibility

(Source: SPSS)

Table 3 shows ANOVA results for a regression model predicting customer satisfaction. A highly significant F-test ( $F = 484.618$ ,  $p < .000$ ) indicates the model's predictive power. With a sum of squares of 92.931, the regression model explains a lot of customer satisfaction variance. The predictors (Responsiveness, Empathy, Reliability, Communication, Credibility, Assurance, and Tangibility) explain this variance with a sum of squares of 86.743. This suggests that these factors are crucial to customer satisfaction.

However, the residual sum of squares is low (6.188), indicating that the model explains little of the variance. These findings indicate that customers' perceptions and experiences are shaped by responsiveness, empathy, reliability, communication, credibility, assurance, and tangibility, which significantly explain customer satisfaction variation.