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Research Article

Service Quality and Customer Loyalty in Indian Banks: A Revised Framework Integrating Digital Service Quality

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Abstract

The Indian banking industry has experienced major changes driven by rapid digital advancement, growing market competition, and evolving customer expectations. Under these conditions, service quality has emerged as a key determinant in developing and maintaining customer loyalty. Conventional service quality models, including SERVQUAL, developed by Parasuraman, Zeithaml, and Berry (1988), mainly emphasises physical and interpersonal service dimensions and therefore may not adequately reflect the characteristics of digital banking services. This study introduces an extended framework that combines traditional service quality dimensions with digital service quality factors to evaluate their impact on customer loyalty in Indian banks. The proposed framework integrates tangibility, reliability, responsiveness, assurance, and empathy with digital attributes such as system dependability, user convenience, security, privacy, and digital responsiveness. Customer satisfaction is treated as a mediating variable linking service quality and customer loyalty. The study seeks to provide a holistic understanding of how integrated service quality dimensions influence customer loyalty within the rapidly evolving Indian banking landscape. The findings are expected to offer practical insights for banking professionals and policymakers in formulating service quality strategies aimed at strengthening customer retention and long-term customer relationships.

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KEYWORDS: Service Quality; Digital Service Quality; Customer Satisfaction; Customer Loyalty; Indian Banking Sector; Conceptual Framework.

1. INTRODUCTION

Banks have become an integral component of everyday life, playing a crucial role in the socio-economic development of a nation. Earlier, banking services were largely accessible only to urban populations; however, in recent decades, banks have significantly expanded their reach to include rural and semi-urban communities. Beyond their conventional profit-oriented activities, banks now actively contribute to national development by addressing the financial needs of agriculturists, industrialists, traders, and various other segments of society. Through financial intermediation, credit creation, and inclusive banking initiatives, banks stimulate economic growth and support the country's pursuit of self-reliance across multiple sectors. This expanding role of banking institutions highlights the importance of examining their service delivery systems and the quality of interactions they maintain with customers.

The Concept of Service Quality

The service sector represents the largest contributor to India's Gross Domestic Product (GDP) and has attracted substantial Foreign Direct Investment (FDI), amounting to US$ 83.14 billion between April 2000 and June 2020. In addition, the sector has emerged as a major source of employment generation (International Labour Organization, 2021; Services Sector in India, 2021). India's service industry encompasses a wide range of activities, including banking and finance, hospitality, logistics, communication, insurance, real estate, business consultancy, social services, and construction (Services Sector in India, 2021). Currently, nearly 32 percent of total employment in India is provided by the services sector (International Labour Organization, 2021).

In an increasingly competitive environment, service organisations in India focus on achieving three primary competitive objectives—service quality and delivery, flexibility, and cost efficiency. Among these, quality and delivery have been identified as the most critical factors influencing organisational performance and customer perceptions (Idris & Naqshbandi, 2019). Consequently, service quality has emerged as a strategic priority for banks seeking to enhance customer satisfaction, loyalty, and long-term sustainability.

Dimensions of Service Quality

In response to various criticisms of the original SERVQUAL scale, Parasuraman et al. (1991) introduced refinements to enhance its conceptual clarity and applicability across service contexts. The five core dimensions of service quality are briefly described below.

2.1.1 Tangibles

Tangibles refer to the physical elements associated with service delivery that customers can directly observe and experience. In the context of service quality, tangibles include Information and Communication Technology (ICT) infrastructure, physical facilities, and their visual appeal, such as ambience, lighting, air-conditioning, and seating arrangements. In addition, the appearance and presentation of service personnel also form a crucial component of tangibility (Blery et al., 2009). These tangible cues collectively shape customers' perceptions regarding the quality, efficiency, and usability of services provided by an organisation.

2.1.2 Reliability

Reliability represents the capability of a service provider to deliver promised services accurately, consistently, and within the expected time frame (Blery et al., 2009). Customers value services that are dependable and error-free, as reliability strengthens trust and confidence in the service provider.
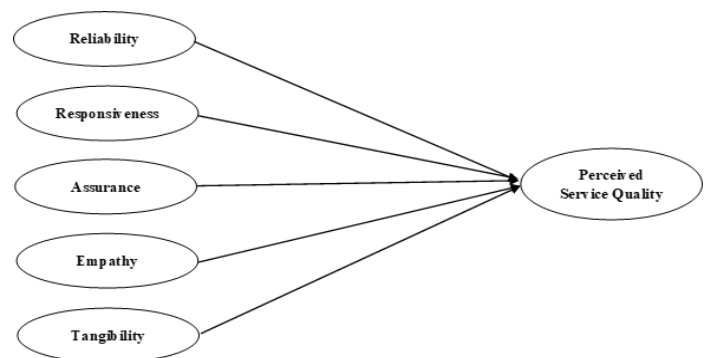
2.1.3 Assurance

Assurance reflects the competence, knowledge, and courtesy demonstrated by employees during service delivery, as well as their ability to inspire trust and confidence among customers (Blery et al., 2009). In service industries such as banking, assurance plays a vital role in reducing perceived risk and enhancing customer confidence.

2.1.4 Empathy

Empathy refers to the degree to which an organisation provides individualised care and personal attention to its customers (Blery et al., 2009). It involves understanding customer needs, listening to their concerns, and responding effectively to their problems and expectations.

Reliability, responsiveness, assurance, empathy, and tangibility together constitute the construct of perceived service quality, which represents customers' overall assessment of a service experience. Reliability pertains to consistent and accurate service performance, while responsiveness reflects the willingness to provide prompt assistance. Assurance captures trust-building behaviours and professional competence, empathy emphasizes personalized attention, and tangibility relates to physical service cues and infrastructure. Collectively, these five dimensions form the SERVQUAL framework, which is widely employed to measure and analyse perceived service quality across various service industries (Parasuraman, Zeithaml, & Berry, 1988).

Figure 1: Constructs of Perceived Service Quality

2. LITERATURE REVIEW

Customer Satisfaction

Customer satisfaction is a psychological state that emerges from an evaluative process in which customers compare their expectations with the actual performance of a product or service (Kotler et al., 2009). Satisfaction is therefore not merely an outcome of consumption but a reflection of customers' subjective judgments regarding value received. Liu et al. (2008) identified several dimensions for assessing customer satisfaction in the context of product and service usage. These include customers' perception of acceptability of the offering, the functional features and benefits that contribute to a positive consumption experience, relief from negative emotions, novelty that generates excitement, and surprise that creates unexpected pleasure.

Furthermore, analysing customer satisfaction across different stages of the customer relationship life cycle provides valuable insights into evolving customer expectations and experiences (Ravald & Grönroos, 1996). Satisfaction at various interaction points strengthens the relational bond between customers and service providers. Sustained satisfaction not only enhances the quality of the relationship but also serves as a foundation for long-term customer loyalty.

Customer Loyalty

Customer loyalty has been widely recognised as a critical outcome of effective service delivery. Heskett et al. (1994) suggested that loyal customers are more likely to engage in repeat purchasing behaviour and actively recommend products or services to others. According to Duffy (2003), customer loyalty represents an emotional attachment or sense of affiliation that a customer develops toward a brand, which motivates repeated consumption and contributes positively to organisational performance.

Customer loyalty is shaped by several underlying assumptions: it arises from psychological processes, involves attitudinal bias, requires a decision-making entity, may relate to competing alternatives, manifests as observable behavioural responses, and develops over time through post-purchase experiences. In the banking sector, loyalty is particularly valuable as it supports profitability, business expansion, and long-term market presence (Hayes, 2008). Loyal customers generate repeat transactions and act as informal brand ambassadors by recommending their bank to others, thereby contributing to customer acquisition and market share growth (Chu, 2009). Consequently, customer loyalty plays a pivotal role in strengthening the financial stability of banking institutions.

Perceived Service Quality and Customer Satisfaction

Within the banking industry, service quality is a fundamental component of the overall customer experience. Banks regularly assess service performance to ensure customer satisfaction and enhance retention and loyalty. Customer satisfaction is achieved when service delivery aligns with or exceeds customer expectations and conforms to prevailing market standards (Gitomer, 1998). Positive service encounters generate favourable customer perceptions and emotional responses.

However, satisfaction alone does not automatically result in customer retention or loyalty. Numerous studies have identified service quality as a strong antecedent of customer satisfaction and an indirect driver of customer loyalty. Cronin et al. (2000) emphasised that service quality significantly influences satisfaction, which in turn affects loyalty intentions. Similarly, Muyeed (2012) identified service quality as a key determinant of customer satisfaction in the banking context. Based on these findings, the following hypothesis is proposed:

H1: Perceived service quality has a significant positive impact on customer satisfaction.
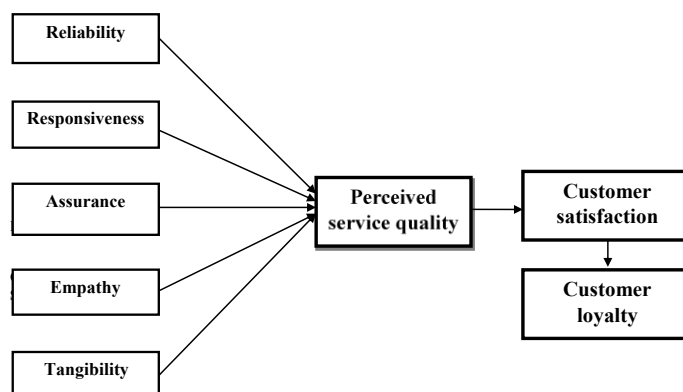
Customer Satisfaction and Customer Loyalty

Customer satisfaction plays a central role in the formation and maintenance of customer loyalty. When customers consistently experience satisfactory service, they develop trust, emotional attachment, and a positive attitude toward the service provider. These factors enhance customers' intention to continue the relationship, resist switching to competitors, and engage in positive word-of-mouth communication. Loyal customers not only demonstrate repeat purchase behaviour but also contribute to brand advocacy.

Empirical evidence across various service industries—including banking, retail, and hospitality—confirms a strong positive relationship between customer satisfaction and customer loyalty (Oliver, 1999; Anderson & Srinivasan, 2003). As a result, customer satisfaction is widely regarded as a key antecedent of loyalty and a strategic driver of long-term organisational success and competitive advantage. Accordingly, the following hypothesis is formulated:

H2: Customer satisfaction has a positive and significant impact on customer loyalty.

Based on the above discussion, a conceptual research framework is proposed to examine the interrelationships among service quality, customer satisfaction, and customer loyalty.

3. METHODOLOGY

Scope of the Study

The present study examines service quality and its influence on customer satisfaction and customer loyalty among customers of private sector banks in Gujarat. The geographical scope of the research is limited to the state of Gujarat. The study assesses various service quality dimensions and analyses their impact on customer satisfaction and loyalty among private sector bank customers in the region.

The study also considers customers from different demographic backgrounds, such as age, income level, occupation, banking experience, and social status, to gain a broader understanding of service quality perceptions. In addition, SERVQUAL-based studies published in reputed academic journals during the period 2020–2025 were reviewed. The year 2020 was chosen as the base year to ensure the inclusion of recent and relevant empirical literature.

The present research attempts to develop a refined theoretical model by identifying additional variables that may be incorporated into the SERVQUAL framework to enhance its predictive ability. Relevant studies were identified through an electronic search of the Scopus database and other academic sources. Scopus was primarily used to ensure the selection of high-quality, peer-reviewed research articles.

Selection of Articles
Selection Criteria

A systematic procedure was followed to identify appropriate studies for the present research. The selection criteria were as follows:

1. Studies published between 2020 and 2025 to capture recent research trends.
2. Empirical studies employing quantitative, qualitative, or mixed research methods.
3. Studies examining SERVQUAL dimensions—reliability, responsiveness, assurance, empathy, and tangibility—and/or their relationship with perceived service quality, customer satisfaction, and customer loyalty.

Selection Process

Research articles were identified through a structured search of the Scopus database by using keywords such as *"service quality," "customer satisfaction," "customer loyalty,"* and *"SERVQUAL model"* in various combinations. The final selection included empirical studies conducted in regions such as Europe, the United States, Australia, Asia, and New Zealand. Due to the diversity of geographical contexts, the findings of these studies may be generalised at a broader level.

Research Gap

Previous studies on the banking sector have examined service quality across different segments, including the private sector, the public sector, and comparative studies involving both sectors.

Private Sector Banks

Several studies have adopted the SERVQUAL framework with minor modifications. Ananth, Ramesh, and Prabaharan (2010) extended the SERVQUAL model by incorporating accessibility as an additional dimension. Their findings revealed that empathy exhibited the largest gap between customer expectations and perceptions, while empathy, reliability, and assurance significantly influenced banking service quality. Jain et al. (2012) examined customer perceptions of service quality in Indian private banks but focused primarily on service quality dimensions without integrating customer loyalty.

Public Sector Banks

Paul (2013) evaluated service quality in public sector banks in Odisha with special reference to SBI and examined customer satisfaction and dissatisfaction arising from gaps between expected and perceived service quality. Darmula and Rao (2018) analysed customer perceptions of service quality in public sector banks in Warangal district and identified key SERVQUAL dimensions influencing satisfaction levels.

Studies Covering Both Sectors

Aurora and Malhotra (1997) compared customer satisfaction levels between public and private sector banks in India and concluded that customers of private sector banks were relatively more satisfied. Brahmbhatt and Panelia (2008) conducted a comparative assessment of service quality and customer satisfaction across public, private, and foreign banks.

Despite extensive research, limited studies have simultaneously examined service quality, customer satisfaction, and customer loyalty within a single framework, particularly in the context of private sector banks in Gujarat.

Need for the Proposed Study

Although numerous studies have explored the relationship between service quality, customer satisfaction, and customer loyalty in banking, relatively few studies have focused specifically on private sector banks in India. Private sector banks account for nearly 70% of total banking assets in the country, highlighting their significance in the Indian banking system.

Gujarat is one of the states with high banking penetration and economic activity; however, limited empirical research has examined service quality and its impact on both customer satisfaction and loyalty in this regional context. This study aims to bridge this gap by identifying key service quality factors influencing customer satisfaction and loyalty among private sector bank customers in Gujarat.

The study also considers demographic variables such as age, gender, education, and banking experience to provide a comprehensive understanding of customer perceptions. A self-developed measurement scale was designed and validated through appropriate validity tests and exploratory factor analysis. The state of Gujarat was divided into South, Central, and North regions, and stratified random sampling was employed to ensure adequate representation.

Research Questions

Based on the hypotheses formulated, the following research questions are proposed:

RQ1: Does perceived service quality significantly influence customer satisfaction?

RQ2: Does customer satisfaction significantly affect customer loyalty?

Conclusion and Future Scope of the Study

The study concludes that perceived service quality plays an important role in determining customer satisfaction, which in turn influences customer loyalty. The SERVQUAL dimensions—reliability, responsiveness, assurance, empathy, and tangibility—jointly shape customers' overall evaluation of banking services. When services are perceived as reliable, responsive, trustworthy, personalised, and supported by appropriate physical facilities, customer satisfaction levels improve. The study proposes a conceptual framework linking perceived service quality to customer satisfaction and subsequently to customer loyalty, with satisfaction acting as a mediating variable. However, the study is largely conceptual in nature and based on an extensive literature review.

Future research may empirically test the proposed framework using advanced techniques such as Structural Equation Modelling (SEM) through tools like AMOS or Smart PLS. Additional variables such as customer trust, perceived value, brand image, switching costs, and digital service quality may also be incorporated to enhance the model's explanatory power.

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