

**Research Article**

**Determinants of Customer Satisfaction on Retail Banking in Nepal**

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**Abstract**

Customer satisfaction is paramount for bank success and customer retention. The study in Rupandehi District's commercial banks aimed to identify key determinants of customer satisfaction. Analyzing the reliability, assurance, responsiveness, empathy, and tangible as independent variables, the study found that reliability, assurance, and tangibles significantly impact customer satisfaction positively. However, empathy and responsiveness had negligible effects. 180 samples were selected from the Rupandehi District, and a structured survey questionnaire was distributed to all the samples. The responses of all 180 samples have been collected, but 30 responses have outlier problems, so only 150 have been analyzed. The findings emphasize the need for banks to prioritize reliability, assurance, and tangible aspects of service delivery to enhance customer satisfaction, ensuring a sustainable competitive advantage in the long term.

**Keywords:** Customer Satisfaction; Assurance; Reliability; Responsiveness; Service Quality

**1. Introduction**

In the banking sector, customer satisfaction is a key factor in determining success and longevity. It has a significant impact on bank financial performance overall as well as client loyalty and retention (Zeithaml, Berry, & Parasuraman, 1996). Delivering top-notch service is crucial to meeting client expectations and differentiating products in a highly competitive banking industry, particularly in developing nations like Nepal (Kumar, 2016).

Several researches have looked into what affects bank customers' satisfaction. The SERVQUAL model, which was first presented by Parasuraman, Zeithaml, and Berry in 1988, identified five essential components of service quality: tangibles, responsiveness, empathy, assurance, and dependability. Studies conducted in various settings have validated the noteworthy

influence of these elements. According to research conducted in Indian banks by Rai and Medha (2013), for example, customer satisfaction was positively impacted by tangibles and dependability, but not as much by empathy. Similarly, certainty and dependability were the most important factors influencing satisfaction in Kenya, according to Auka, Bosire, and Matern (2013). Reactivity and empathy, on the other hand, had lesser associations with customer satisfaction in a number of instances, indicating that their impact may fluctuate depending on the operational and cultural setting (Siddiqi, 2011).

In Nepal, research on service quality in commercial banks remains limited. Prior research has identified discrepancies between client expectations and perceptions, particularly with regard to tangibles and assurance (e.g., Adhikari & Dahal, 2018). This emphasizes how important it is to look more closely at how each SERVQUAL factor affects customer satisfaction in the Nepali setting, especially in areas like the Rupandehi District, where banking rivalry is getting fiercer.

Therefore, this study aims to identify the key determinants of customer satisfaction among commercial banks in the Rupandehi District, focusing on the reliability, assurance, responsiveness, empathy, and tangible dimensions.

**Research Hypothesis:** The following hypotheses were formulated and tested.

- H1: There is a positive and significant impact of reliability on customer satisfaction in retail banking.
- H2: There is a positive and significant impact of responsiveness on customer satisfaction in retail banking.
- H3: There is a positive and significant impact of assurance on customer satisfaction.
- H4: There is a positive and significant impact of empathy on customer satisfaction.
- H5: There is a positive and significant impact of tangibles on customer satisfaction.

## **2. Literature Review**

Numerous research studies conducted in various nations and areas have examined the significant relationship among service quality, client happiness, and loyalty within the banking sector. Caruana (2002) identified tangibility, reliability, and courtesy as key drivers of customer satisfaction and loyalty, while Zafar et al. (2012), Khan and Fasih (2014), and the positive impact of service quality dimensions on customer satisfaction and loyalty (Shanka, 2012). Similarly, Addo and Kwarteng (2012), Ali & Zhou (2013), Narteh and Kuada (2014), Koirala and Shrestha (2012), Pradhananga (2014), Cudjoe et al. (2015), and Gyawali and Kunwar (2014) explored various facets of service quality and customer satisfaction across different banking contexts and found out the significance of service quality dimensions such

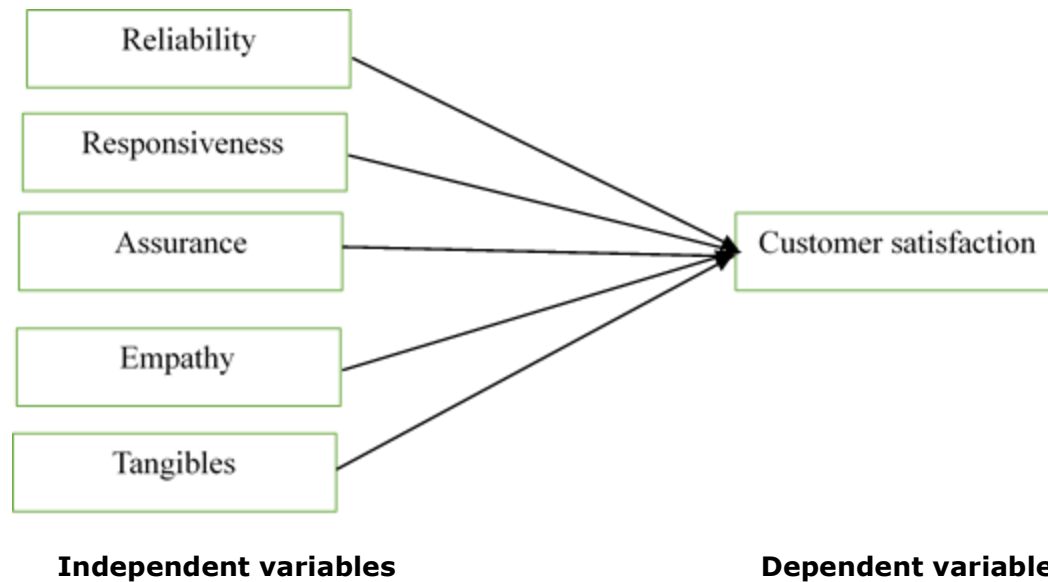
as responsiveness, assurance, tangibility, empathy, and reliability in shaping customer perceptions and fostering loyalty. However, Chiquvi and Chuma (2017) found that customers in Botswana were not completely satisfied with certain dimensions of service quality in commercial banks.

Despite the abundance of research in international contexts, retail banking remains relatively understudied in Nepal. While some studies, such as Pradhananga (2014), have examined the service quality and customer satisfaction in Nepalese commercial banking services, comprehensive research on retail banking products like home loans, auto loans, and personal loans is scarce. This gap underscores the need for further investigation into the dynamics of retail banking in Nepal to better understand customer perceptions, satisfaction levels, and preferences in this emerging market.

According to Ghimire and Dhakal (2023), mobile banking characteristics, including responsiveness, security, and ease of use are crucial for raising consumer satisfaction. Customer satisfaction in Nepalese commercial banks is significantly influenced by service quality, according to recent studies. Response time, empathy, confidence, and communication all have a big impact on bank clients' satisfaction levels, according to Upadhyaya and Ghimire (2024). Adhikari et al. (2025) also confirmed that responsiveness and dependability had less of an impact on satisfaction than certainty and empathy. These results highlight how banks in Nepal must concentrate on aspects of service quality that are adapted to changing consumer demands.

### **3. THEORITICAL FRAMEWORK**

A theoretical framework has been designed in the study to define the factors that influence customer satisfaction in banking sectors. Reliability, responsiveness, assurance, and empathy significantly and positively influence customer attitudes in terms of satisfaction, i.e., service quality dimensions, which are crucial for customer satisfaction in the public, private, and joint venture commercial banking sectors in Nepal (Gnawali, 2016). The theoretical framework of the study is as follows:



**Figure 1.** Theoretical framework (Cited from Gnawali, 2016)

#### 4. Materials and Methods

The researcher used a descriptive and analytical research design in order to analyze the customer satisfaction in retail banking.

##### Population and Sampling

The researcher chooses all bank customers in Rupandehi district as the population. To achieve the study's objectives, 150 customers from various parts of the district were selected using judgmental sampling. This approach aligns with Hair et al.'s (2006) recommendation, which suggests that a model with fewer constructs (five or fewer) can be estimated with a sample size of 100 to 150. Conversely, models with a larger number of factors, such as six or more with three measured items each, necessitate a sample size exceeding 500. Therefore, the chosen sample size of 180 adequately suits the scope of this study, facilitating the examination of customer satisfaction determinants in Rupandehi District's commercial banks.

##### Data Collection and Analysis

This study is based on primary data. The primary data were collected through closed-ended questionnaires and personal visits to banks. The structure of the questionnaires was divided into two parts: the first part is related to demographic responses, and the second part is related to dependent and independent variables. A five-point Likert scale was used to collect the responses, with 1 for highly dissatisfied and 5 for highly satisfied. SPSS version 25 was used to analyze the collected data. Out of the 180 questionnaires distributed to the customers,

30 respondents were excluded from the study due to outlier problems. Finally, (180-30) 150 respondents' data has been considered for analysis of the study, and included for statistical analysis purposes at the rate of 83.33%. The Cronbach's alpha is 0.752, so the collected data are reliable for further study. Minimum, maximum, mean, and standard deviation are descriptive statistics, and multiple correlation and regression estimation techniques were used as inferential statistics in analyzing the data obtained in the study.

## 5. Result and Discussion

### Demographic Profile

Table 1 reports the demographic profile of the respondents, i.e. age, gender, education, and employment.

**Table 1:** *Demographic profile of the respondent*

Demographic	Frequencies	Percentage
<b>Gender</b>		
Male	82	54.67
Female	68	45.33
<b>Age</b>		
Below 30 years	27	18
30 – 40	43	28.67
41 – 50	56	37.33
51 or above	24	16
<b>Educational Qualification</b>		
S.L.C	15	10
Intermediate	24	16
Bachelor's	68	45.33
Master's or above	43	28.67
<b>Employment</b>		
Employed	50	33.33
Non-employed	100	66.67
<b>Total</b>	<b>150</b>	<b>100</b>

**Note:** SPSS data output based on Field Survey 2024

## Descriptive Analysis

**Table 2:** *Descriptive Analysis*

	N	Minimum	Maximum	Mean	Standard Deviation
Customer satisfaction	150	1	5	3.81	1.148
Reliability	150	1	5	3.49	1.231
Responsiveness	150	1	5	3.11	1.155
Assurance	150	1	5	3.60	1.225
Empathy	150	1	5	3.64	1.106
Tangible	150	1	5	3.69	1.137

**Note:** SPSS data output based on Field Survey 2024

Table 2 shows that dependent variable customer satisfaction has a mean score of 3.81 and a standard deviation of 1.148. While independent reliability, responsiveness, assurance, empathy, and tangibles have mean score of 3.49, 3.11, 3.60, 3.64, and 3.69 respectively, and standard deviation of 1.231, 1.155, 1.225, 1.106, and 1.137 respectively.

## Correlation Analysis

**Table 3:** *Pearson's correlation analysis*

	CS	Reliability	Responsiveness	Assurance	Empathy	Tangibles
CS	1					
Reliability	0.387**	1				
Responsiveness	0.264**	0.236**	1			
Assurance	0.348**	0.290**	0.300**	1		
Empathy	0.312**	0.276**	0.282**	0.227**	1	
Tangibles	0.437**	0.298**	0.235**	0.270**	0.369**	1

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

**Note:** SPSS data output based on Field Survey 2024

Table 3 shows the correlation between customer satisfaction and reliability, responsiveness, assurance, empathy, and tangibles. All independent variables have a positive correlation with customer satisfaction, and the relationship is significant at the 0.01 level of confidence.

## Multiple Regression Analysis

**Table 4:** *Model summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	0.557 <sup>a</sup>	0.310	0.296	0.964	0.310	22.521	5	99	0.000

a. Predictors: (Constant), Tangibles, Responsiveness, Reliability, Assurance, Empathy

b. Dependent Variable: CS

**Note:** SPSS data output based on Field Survey 2024

The analysis reveals a strong fit for the model, with an R-value of 0.557, indicating good predictive capability. Furthermore, the R square value of 0.310 signifies a strong relationship between the independent variables and customer satisfaction. This suggests 31% of the variation in customer satisfaction is influenced by the independent variables—tangibles, responsiveness, reliability, assurance, and empathy. However, it's important to note that the remaining 69% of the variance is influenced by other variables not included in this study.

**Table 5:** *ANOVA Table*

Model	Sum of squares	df	Mean square	F	Sig.
Regression	104.570	5	20.914	22.521	0.000 <sup>b</sup>
Residual	233.088	99	0.929		
Total	337.658	100			

a. Dependent Variable: CS

b. Predictors: (Constant), Tangibles, Responsiveness, Reliability, Assurance, Empathy

**Note:** SPSS data output based on Field Survey 2024

Table 5 shows the analysis of variance, where F statistics are 22.521, which is statistically significant ( $p = 0.000$ ) at the 0.05 level. So, tangibles, responsiveness, reliability, assurance, and empathy are statistically significant predictors of customer satisfaction.

**Table 6:** *Coefficient Table*

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
(Constant)	0.942	0.286			3.298	0.001
Reliability	0.199	0.054	0.213		3.706	0.000
Responsiveness	0.071	0.057	0.072		1.255	0.211
Assurance	0.158	0.054	0.169		2.935	0.004
Empathy	0.096	0.061	0.093		1.581	0.115
Tangibles	0.280	0.059	0.277		4.709	0.000

a. Dependent Variable: CS

**Note:** SPSS data output based on Field Survey 2024

Table 6 provides the relationship between each independent variable (reliability, responsiveness, assurance, empathy, and tangibles) and the dependent variable (customer satisfaction, denoted as CS).

Reliability ( $B = 0.199$ ,  $p < 0.001$ ) indicates that for every one-unit increase in reliability, customer satisfaction is predicted to increase by approximately 0.199 units. The standardized coefficient ( $Beta = 0.213$ ) suggests that reliability has a moderately positive impact on customer satisfaction.

Responsiveness ( $B = 0.071$ ,  $p = 0.211$ ) shows that responsiveness and customer satisfaction have a positive relationship, but it is not statistically significant ( $p > 0.05$ ). The standardized coefficient ( $Beta = 0.072$ ) suggests a weak positive impact of responsiveness on customer satisfaction, although not significant in this case.

Assurance ( $B = 0.158$ ,  $p < 0.01$ ) indicates that for every one-unit increase in assurance, customer satisfaction is predicted to increase by approximately 0.158 units. The standardized coefficient ( $Beta = 0.169$ ) suggests that assurance has a moderately positive impact on customer satisfaction.

Empathy ( $B = 0.096$ ,  $p = 0.115$ ) shows that empathy and customer satisfaction are positively correlated, but the association is not statistically significant ( $p > 0.05$ ). The standardized coefficient ( $Beta = 0.093$ ) suggests a weak positive impact of empathy on customer satisfaction, although not significant in this case.



Tangibles ( $B = 0.280$ ,  $p < 0.001$ ) indicates that for every one-unit increase in tangibles, customer satisfaction is predicted to increase by approximately 0.280 units. According to the standardized coefficient ( $Beta = 0.277$ ), tangibles moderately affect customer satisfaction.

Overall, reliability, assurance, and tangibles emerge as significant predictors of customer satisfaction, while responsiveness and empathy show positive but non-significant relationships.

### **Findings of the study**

Reliability, assurance, and tangibles have a significant and positive effect on customer satisfaction in retail banking. Responsiveness and empathy showed positive relationships with customer satisfaction, although these relationships were not statistically significant.

Approximately 31% of the variance in customer satisfaction could be explained by the selected independent variables, suggesting the importance of these factors in shaping customer perceptions.

## **6. Discussion**

The results of this study show that only assurance, tangibles, responsiveness, and reliability have a significant and positive impact on customer satisfaction in retail banking within Rupandehi District out of the five service quality dimensions that were studied. This is similar to other research, including those conducted by Rai and Medha (2013), Auka et al. (2013), and Caruana (2002), which highlighted the ways in which customer trust, consistent service delivery, and tangible service components shape consumer satisfaction. In this location, tangibles were shown to be the most significant element, indicating that consumers place a great value on the physical look of bank employees and facilities. While responsiveness and empathy showed positive correlations, their effects were not statistically significant, mirroring findings by Chiguvi and Chuma (2017) and Adhikari et al. (2025), who noted these dimensions may hold less relevance in certain contexts. Overall, the results support the contextual application of the SERVQUAL model, underscoring that customer satisfaction in Nepalese retail banking is most strongly driven by dependable, professional, and visibly appealing service attributes.

## **7. Conclusion**

The purpose of the study is to examine the factors that influence consumer satisfaction in retail banking in Rupandehi District. Dependent and independent variables were identified, including reliability, responsiveness, assurance, empathy, and tangibles. Demographic characteristics such as age, gender, profession, and educational qualifications were also

examined. Regression analysis and Pearson correlation were two of the statistical methods used to gather and examine data from 150 respondents. All independent factors and customer satisfaction were found to be positively correlated in the results, with substantial relationships found between tangibles, assurance, and reliability. Moreover, the study compared private and public banks concerning customer expectations and perceptions, drawing various findings and conclusions. It explored customers' levels of expectations and perceptions, as well as their satisfaction, perceived overall service quality, and likelihood of recommending the bank. Overall, the research provides valuable insights into the factors influencing customer satisfaction in retail banking and sheds light on the different commercial banks in meeting customer expectations and preferences within the Rupandehi District.

Future research could explore additional factors influencing customer satisfaction, such as digital banking services, customer trust, or demographic moderating variables, across a broader geographic scope to enhance generalizability.

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