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Corporate Governance and Customer Loyalty in Nepalese Commercial Banks: The Moderating Role of Regulatory Oversight

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Abstract

Background: Corporate governance and regulatory oversight have emerged as a crucial factor in strengthening transparency, accountability, and institutional credibility in the banking sector. This is important for Nepalese commercial banks, where maintaining customer trust and long-term loyalty has become essential in an increasingly competitive and regulated financial environment. Therefore, this study examines the relationship between corporate governance and customer loyalty in Nepalese commercial banks with the moderating effect of regulatory oversight.

Methods: The study is based on a quantitative research design and structured questionnaire and to examine the relationship between variables. The data were collected from 390 officer and managerial level employees working in different branches of Nepalese commercial banks located in Kathmandu valley. To examine the relationships among the variables and the moderating effects, the PROCESS Macro Model I was employed.

Results: The findings revealed that corporate governance significantly and positively affects customer loyalty. Similarly, the regulatory oversight also showed a significant positive influence on customer loyalty. Furthermore, the study confirmed that the regulatory framework significantly moderates this relationship (interaction $\beta = 0.18$, $p = 0.011$) strengthening the positive effect of corporate governance on customer loyalty.

Conclusion: Both corporate governance and regulatory oversight are important for enhancing customer loyalty in Nepalese commercial banks. Strengthening transparency, accountability, ethical practices, and regulatory compliance can improve institutional credibility and customer confidence. Therefore, commercial banks and regulatory authorities should adopt a comprehensive approach by strengthening governance systems in order to improve customer trust, institutional credibility, and long-term customer loyalty.

Novelty: This study contributes to the literature by integrating corporate governance, regulatory oversight, and customer loyalty within a single empirical framework in the Nepalese banking context. It further examines the moderating role of the regulatory oversight, which has received limited empirical attention in previous studies.

Keywords: Governance mechanism, regulatory compliance, customer retention, Banking sector Nepal, financial transparency

JEL Classification: M14, M31, G28

Introduction

Corporate governance has become a critical issue in the banking sector due to its role in ensuring transparency, accountability, and stakeholder confidence. In financial institutions, particularly commercial banks, strong corporate governance practices are essential to minimize agency problems, improve decision-making, and enhance organizational credibility (Rawat, 2025). Effective governance creates an environment of trust and transparency, which supports long-term investment and strengthens financial stability. Weak governance mechanisms, on the other hand, have been identified as major contributors to institutional failures and declining public confidence in the banking sector (OECD, 2015).

In the Nepalese context, corporate governance has increasingly attracted the attention of regulators, policymakers, and researchers due to various governance-related challenges observed in some banking institutions. Strengthening governance practices has become a major priority in the banking sector due to growing concerns regarding accountability, risk management, transparency, and the effectiveness of managerial decision-making (NRB, 2023). Existing studies emphasize that core corporate governance dimensions including board structure, director independence, transparency and disclosure practices, and the effectiveness of board committees are essential elements of a strong governance system in Nepalese commercial banks. These mechanisms play a crucial role in ensuring proper strategic oversight, enhancing accountability, and improving the overall functioning and stability of banking

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institutions. By strengthening these governance structures, banks are better able to align managerial actions with stakeholder interests and maintain public trust in the financial system (Bhatt et al., 2024).

Additionally, the regulatory oversight is essential to improving bank governance procedures. In Nepal, the central regulatory authority, particularly Nepal Rastra Bank, formulates and enforces governance guidelines, prudential regulations, and compliance requirements to enhance financial stability, transparency, and accountability within banking institutions. These regulatory provisions are designed to ensure that banks maintain adequate internal control systems, follow sound risk management practices, and adhere to ethical standards in their operations (NRB, 2023). Effective corporate governance, supported by a strong regulatory oversight, helps to reduce ownership–control conflicts by aligning the interests of shareholders, managers, and other stakeholders. It also enhances institutional discipline by ensuring that banks operate within a well-defined legal and supervisory structure (Srivastava, 2023). Moreover, regulatory oversight improves disclosure practices and encourages boards to function more independently and responsibly, thereby strengthening investor and depositor confidence in the banking system. In the broader context, such governance-regulatory interaction contributes to the overall stability and resilience of the financial sector (Lamsal & Basnet, 2023).

Customer loyalty has emerged as a crucial non-financial outcome in the banking sector, where trust, transparency, and service reliability play a central role in determining long-term relationships with customers. In competitive banking environments, customers tend to remain loyal to institutions that consistently demonstrate reliability in services, ethical conduct, and openness in their operations (Nagamani et al., 2024). Strong corporate governance practices further reinforce these factors by enhancing disclosure quality, ensuring accountability, and promoting ethical decision-making within banks. Such governance mechanisms build greater customer confidence by reducing information asymmetry and increasing perceived fairness in banking transactions (OECD, 2015). Moreover, governance-driven transparency and strict regulatory requirements improve institutional credibility and reduce customers' perceived risk associated with financial dealings. When banks adhere to sound governance standards and regulatory expectations, customers are more likely to trust the institution and maintain long-term relationships. This trust-based relationship not only improves customer satisfaction but also strengthens loyalty and retention in the banking sector (Kushwaha et al., 2025; Nagamani et al., 2024).

Despite the growing importance of corporate governance, the majority of earlier research in Nepal has focused on the relationship between corporate governance and financial success of the organizations (Hada, 2023). Limited research has investigated its effect on non-financial outcomes such as customer loyalty, and no study has empirically tested the moderating role of the regulatory oversight in this relationship. In order to fill in these gaps, this study examines the effect of corporate governance on customer loyalty in Nepalese commercial banks and how the regulatory environment plays a moderating effect.

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Literature Review and Hypotheses Development

Theoretical Review

The theoretical foundation of this study is based on the need to examine how corporate governance practices and effective regulatory oversight influence customer loyalty in the banking sector. Banking institutions operate in a highly regulated and trust-driven environment, where stakeholders depend on transparency, accountability, and ethical conduct. In this context, effective governance mechanisms are essential for ensuring financial stability, minimizing risks, and sustaining public confidence in financial institutions.

Over time, researchers have developed several theories to explain organizational behavior, stakeholder relationships, and market signaling in financial institutions, particularly in contexts where governance, regulation, and trust play a central role in shaping institutional outcomes. Jensen and Meckling (1976) introduced agency theory and explain how ownership and control are separated in banks, where managers may not always act in the shareholders' best interests. Strong governance practices including board independence, efficient audits, transparency, and compliance systems are used in Nepalese commercial banks to overcome this problem. These mechanisms help reduce agency costs, improve accountability, and align managerial decisions with stakeholder interests. As a result, they minimize opportunistic behavior and enhance institutional trust as well as customer confidence. Further Freeman (1984) developed stakeholder theory, which expands the scope of corporate governance beyond shareholders to customers, employees, regulators, and society at large. In the context of Nepalese banks, customer loyalty largely depends on how effectively banks respond to the expectations of these stakeholders through transparency, ethical practices, and responsible leadership.

Signaling theory (Spence, 1973) explained how organizations convey their quality and reliability to external stakeholders through visible actions and disclosures. In the banking sector, transparent reporting, strong auditing practices, and compliance with regulatory frameworks act as positive signals of institutional strength and integrity. In Nepalese commercial banks, such signals help reduce information asymmetry, build customer trust, and ultimately strengthen customer loyalty in financial services. Institutional theory highlights that organizational behavior is influenced by formal rules, regulations, and societal expectations (DiMaggio & Powell, 1983). In Nepalese commercial banks, the regulatory framework set by Nepal Rastra Bank significantly shapes corporate governance practices. This institutional pressure drives banks to adopt uniform governance practices, thereby improving transparency, accountability, and customer confidence. Further relationship marketing theory (Morgan & Hunt, 1994) emphasized the role of trust, commitment, and long-term relationships in retaining customers. In the banking sector, particularly in Nepalese commercial banks, customer loyalty is developed through consistent service quality, ethical governance, and transparent communication. Strong corporate governance supports relationship marketing by ensuring that banks remain trustworthy and reliable, which is essential for sustaining long-term customer relationships.

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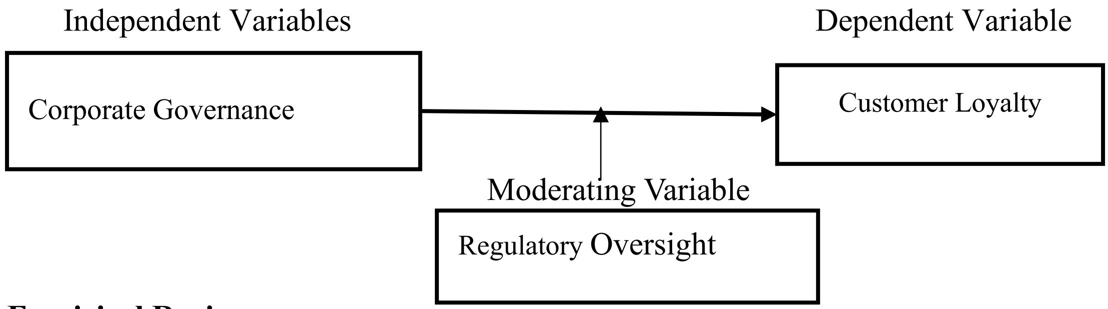
When these theoretical viewpoints are combined, it appears that the regulatory oversight moderates the relationship between corporate governance practices and customer loyalty in Nepalese commercial banks. This integration offers a theoretical foundation for comprehending both the circumstances that reinforce the direct effects of corporate governance elements on consumer loyalty. Figure 1 shows the theoretical framework that directs this investigation, which is based on the theories mentioned above.

Combining these theoretical perspectives suggests that the regulatory oversight plays a moderating role in the relationship between corporate governance practices and customer loyalty in Nepalese commercial banks. This integration offers a theoretical foundation for explaining not only the direct influence of corporate governance dimensions on customer loyalty but also the circumstances under which these relationships become stronger. Based on the theories discussed above, Figure 1 illustrates the theoretical framework of this study.

Figure 1

Theoretical framework



Empirical Review

Corporate governance refers to the system of rules, practices, policies, structures, and procedures through which organizations are directed and controlled. It promotes accountability, transparency, fairness, and the protection of stakeholders' interests while ensuring effective organizational management and decision-making (OECD, 2015). In order to known as corporate governance.

Corporate governance helps improve ethical decision-making, risk management, regulatory compliance, and organizational performance, thereby strengthening public confidence and customer trust (Bui & Krajcsák, 2024). Customer trust and confidence in banking sectors are increased by good governance standards such board independence, transparency and disclosure, ethical leadership, and auditing efficacy (Kushwaha et al., 2025). Customers are more inclined to stick with banks that exhibit responsibility, equity, and responsible decision-making because these actions lower uncertainty and boost institutional confidence (Kim et al., 2024). Transparent governance mechanisms improve customer perceptions regarding reliability, security, and service integrity, which ultimately encourage long-term banking relationships and positive word-of-mouth behavior (Bui & Krajcsák, 2024; Kushwaha et al., 2025).

Similarly, the regulatory framework has been identified as an important factor influencing the effectiveness of corporate governance in strengthening customer loyalty. Strong regulatory supervision ensures that commercial banks follow standardized governance practices, maintain

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financial discipline, and protect customer interests (Vieliza et al., 2026). Empirical evidence suggests that when regulatory authorities effectively monitor banking operations and enforce compliance requirements, customers develop greater confidence in the banking system (Doshi, 2023). In the Nepalese context, regulatory directives issued by Nepal Rastra Bank emphasize governance accountability, disclosure practices, and risk management within commercial banks. Therefore, it is expected that an effective regulatory framework will strengthen public confidence in banking institutions, reduce governance-related failures, and enhance the positive relationship between corporate governance and customer loyalty (Bhatt et al., 2024).

Corporate Governance and Customer Loyalty

Empirical evidence from various banking contexts consistently demonstrates a positive and significant relationship between corporate governance and customer loyalty. Strong corporate governance mechanisms such as board independence, transparency, ethical leadership, and effective auditing enhance institutional credibility, which in turn strengthens customers' trust and long-term commitment toward banks (Balilah et al., 2025). When banks demonstrate strong governance through transparent decision-making, ethical conduct, effective board oversight, and strict compliance with regulatory standards, customers develop greater confidence in the institution's stability and reliability (Ofori et al., 2025). Strong governance frameworks help mitigate risks associated with fraud, unethical marketing, and financial mismanagement, which can otherwise lead to customer dissatisfaction and brand abandonment (Sarwar et al., 2022). Firms with high governance standards experience stronger customer loyalty due to increased confidence in their policies and practices (Ghimire & Chaudhary, 2025).

Moreover, Rani et al. (2025) examined the banking sector in Bangalore and found that perceived ethical practices and transparency have a significant and positive influence on customer loyalty. In a similar vein, Yen and Chen (2025) highlighted that clear, honest, and easily accessible information and independent board enhances stakeholder engagement, which is widely recognized as an important antecedent of customer loyalty. Further Faqera et al. (2026) highlighted that the well-governed banks are often associated with higher service consistency, lower operational risk, and better accountability systems, all of which contribute to positive customer experiences. As a result, customers are more likely to maintain long-term relationships, continue using banking services, and recommend the institution to others, thereby strengthening overall customer loyalty.

These findings collectively reinforce that strong governance mechanisms build trust and encourage long-term customer relationships in banking institutions. On the bases of these empirical evidences, the following hypothesis has been proposed:

H1. Corporate governance has a positive and significant effect on customer loyalty.

Regulatory Oversight and Customer Loyalty

Empirical studies consistently show that a strong and effective regulatory oversight has a significant positive relationship with customer loyalty. Regulatory mechanisms such as supervision, compliance enforcement, and governance guidelines enhance transparency and accountability within banks, which in turn increases customers' confidence in financial institutions (Castro et al., 2026). When regulatory authorities ensure that banks follow standardized operational and ethical practices, customers perceive lower risk and greater stability in banking services, leading to stronger trust and long-term loyalty (Kusuma, 2023).

Further empirical evidence suggests that robust regulatory oversight not only strengthens institutional discipline but also indirectly improves customer satisfaction and loyalty through enhanced service reliability, financial transparency, and protection of customer interests (Ajouz et al., 2025). Effective regulatory systems ensure that banks comply with governance standards, ethical practices, and risk management requirements, thereby reducing the possibility of fraud, financial misconduct, and operational failures (Castro et al., 2026). When customers observe that banks operate under strict regulatory supervision, they develop greater confidence in the safety, credibility, and accountability of banking institutions (Chris, 2026). OECD (2015) highlighted that the effective regulation minimizes governance failures, mitigates unethical practices, and enhances the overall credibility of the financial system, which ultimately encourages customers to maintain long-term relationships with banks and increases their loyalty toward banking services.

Moreover, in developing countries like Nepal, regulatory enforcement has been recognized as a crucial factor in sustaining public trust and strengthening customer loyalty behaviors in commercial banks. Regulatory authorities such as Nepal Rastra Bank play an important role in monitoring compliance, promoting accountability, and ensuring financial stability within the banking sector (Bank Supervision Report, 2025). Strong regulatory intervention helps commercial banks improve governance effectiveness, maintain transparency in operations, and deliver fair and secure banking services, all of which positively influence customers' perceptions and long-term commitment toward banks (Alsobai & Aassouli, 2026). Based on the above empirical evidences, the following hypothesis has been proposed:

H2. Regulatory oversight has a positive and significant effect on customer loyalty.

Corporate Governance, Regulatory Oversight and Customer Loyalty

The previous studies indicate that the relationship between corporate governance and customer loyalty becomes more stronger due to the effective regulatory oversight. Strong governance practices such as ethical leadership, board independence, transparency and disclosure and regular and compliance auditing practices enhance customers' trust and confidence in banks (Sari, 2023). Customers tend to be more loyal to banks operating under strict regulatory supervision, as effective regulations enhance accountability, minimize unethical practices, and strengthen institutional credibility (OECD, 2015). Thus, the regulatory oversight acts as a reinforcing mechanism that strengthens the positive effect of corporate governance on customer loyalty.

The studies further reveal that regulatory enforcement significantly improves the effectiveness of governance practices in banking institutions by ensuring compliance with financial standards, protecting customer interests, and promoting operational transparency. In a well-regulated banking systems, customers perceive that banks are more secure, reliable, and trustworthy, which positively influences their satisfaction and long-term loyalty behaviors (Ofori et al., 2025). Iqbal et al. (2025) also emphasized that effective regulatory monitoring reduces governance failures and strengthens public confidence in the banking sector, thereby enhancing customer retention

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and relationship. In the Nepalese context, governance guidelines and supervisory directives introduced by Nepal Rastra Bank have increasingly emphasized transparency, compliance, and risk management practices, which are expected to strengthen customer trust and loyalty toward commercial banks (Ghimire & Dahal, 2025).

Moreover, banks that effectively integrate governance principles with regulatory compliance are better positioned to deliver reliable services, maintain ethical standards, and protect stakeholder interests. This institutional reliability creates positive customer perceptions regarding fairness, security, and service consistency, which ultimately fosters stronger customer loyalty (Akinsola, 2025). Therefore, empirical evidence supports the argument that the regulatory oversight moderates and strengthens the relationship between corporate governance and customer loyalty by improving governance effectiveness and enhancing public confidence in banking institutions. Based on the above evidence, the following hypothesis is proposed:

H3. Regulatory oversight moderates the relationship between corporate governance and customer loyalty.

Methods

This study used a quantitative research approach to examine the relationship between corporate governance, regulatory environment, and customer loyalty in Nepalese commercial banks. In order to examine the relationship between corporate governance practices and customer loyalty and to assess the moderating effect of regulatory oversight, the study used a descriptive and causal-comparative research design. The quantitative approach was appropriate because it enables the systematic measurement of relationships among variables through statistical analysis and supports the generalization of findings within the banking sector.

The officer and managerial level employees working in government-owned, joint venture, and private commercial banks within the Kathmandu Valley is the population of the study. To facilitate data collection, structured questionnaires were distributed through personal visits, emails, and online platforms. A structured questionnaire based on a five-point Likert scale were distributed to 420 respondents, out of which 390 usable responses were received and included in the final analysis, indicating a satisfactory response rate (Ishtiaq, 2019). Responses with incomplete information were excluded to ensure the accuracy and reliability of the study. The sample size of 390 respondents was considered adequate for the study based on the recommendations of multivariate statistical analysis and regression modeling. According to Memon et al. (2020) a minimum sample size of at least 5 to 10 respondents per measurement item is recommended to ensure reliable statistical estimation. Therefore, the selected sample size was considered statistically sufficient to achieve reliable results, adequate statistical power, and generalizability of the findings. The data were collected between January to March, 2026. The study used a purposive sampling technique, which is suitable for selecting respondents based on predefined characteristics aligned with the research objectives (Etikan et al., 2016). The purposive sampling method was adopted because the study specifically targeted officer and managerial level employees who possess adequate knowledge and practical understanding regarding corporate governance practices, regulatory compliance, and customer-related issues in commercial banks. Furthermore, the use of purposive sampling enabled the researcher to efficiently collect relevant data from knowledgeable respondents within the limitations of time, accessibility, and available resources.

Data analysis was carried out using both descriptive and inferential statistical techniques. Descriptive statistics were used to present respondents' demographic profiles and summarize the status of the study variables, whereas inferential statistics were applied to test the relationship between corporate governance and customer loyalty. Furthermore, moderation analysis was performed to examine the moderating role of the regulatory oversight in this relationship. The study applied the PROCESS Macro Model I to assess the moderating effect of the regulatory oversight on the relationship between corporate governance and customer loyalty in Nepalese commercial banks. This approach was appropriate as it allows for the examination of whether the regulatory framework strengthens or weakens the effect of corporate governance practices on customer loyalty.

Cronbach's alpha was used to assess the reliability and internal consistency of the survey instrument for each construct. Corporate governance, regulatory oversight, and customer loyalty were measured through multiple-item scales. All variables showed satisfactory reliability, with alpha coefficients above the recommended 0.70 level, ranging between 0.85 and 0.88, confirming that the measurement items were reliable and suitable for subsequent analysis (Taber, 2018). Table 1 presents the summary of the reliability statistics of the study variables.

Table 1

Reliability Analysis

Variables	Number of Items	Cronbach's Alpha
Corporate Governance	9	0.88
Regulatory Oversight	5	0.85
Customer Loyalty	6	0.87

Note. All Cronbach's α coefficients exceeded the recommended threshold of .70, indicating that the measurement scales were reliable.

Results and Discussion

Demographic Profile of the Respondents

Table 2 presents the demographic profile of the 390 respondents included in the study. Regarding gender, males constituted the majority with 228 respondents (58.5%), whereas females accounted for 162 respondents (41.5%). In terms of age distribution, the largest group was 30–40 years, comprising 156 respondents (40%). This was followed by the 41–50 years category with 108 respondents (27.7%), below 30 years with 82 respondents (21%), and above 50 years with 44 respondents (11.3%). The findings suggest that most respondents were within the active and experienced working-age group, which is suitable for providing reliable opinions regarding corporate governance, regulatory framework, and customer loyalty in commercial banks.

In terms of educational qualification, most respondents held a Master's degree, comprising 232 individuals (59.5%). This was followed by Bachelor's degree holders with 118 respondents (30.3%), while 40 respondents (10.2%) had qualifications above a Master's degree. This indicates that the respondents were academically qualified and capable of understanding issues related to governance practices and banking operations. With respect to designation level, officer-level employees constituted the largest group with 246 respondents (63.1%), whereas managerial-level employees accounted for 144 respondents (36.9%). The higher participation of officer-level employees suggests that the study captured perceptions from employees who are directly involved in operational and customer-related banking activities.

Similarly, in terms of working experience, the highest proportion of respondents had 5–10 years of experience, representing 142 respondents (36.4%). This was followed by respondents with 11–15 years of experience (27.7%), below 5 years (19%), and above 15 years (16.9%). The findings indicate that most respondents had substantial professional experience in the banking sector, which enhances the reliability of the information provided in the study. Regarding the types of banks, the majority of respondents were from private commercial banks, comprising 214 respondents (54.9%). Respondents from joint venture banks accounted for 108 respondents (27.7%), and government-owned banks represented 68 respondents (17.4%). This distribution reflects broader representation from different categories of commercial banks operating in Nepal and increases the generalizability of the study findings.

Table 2

Demographic Profile of Respondents

Demographic Variables	Categories	Frequency	Percentage
Gender	Male	228	58.5
	Female	162	41.5
Age Group	Below 30 Years	82	21
	30–40 Years	156	40
	41–50 Years	108	27.7
	Above 50 Years	44	11.3
Educational Qualification	Bachelor's Degree	118	30.3
	Master's Degree	232	59.5
	Above Master's Degree	40	10.2
Designation Level	Officer Level	246	63.1
	Manager Level	144	36.9
Working Experience	Below 5 Years	74	19
	5–10 Years	142	36.4
	11–15 Years	108	27.7

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	Above 15 Years	66	16.9
Types of Banks	Private Bank	214	54.9
	Joint Venture Bank	108	27.7
	Government Bank	68	17.4

Source*: Field Survey, 2026*

Descriptive Analysis

Table 3 presents the descriptive statistics and correlation coefficients for corporate governance, customer loyalty, and regulatory oversight. The descriptive measures, including mean and standard deviation, indicate the central tendency and variability of the variables. The correlation coefficients show the direction and strength of the relationships among the study variables.

The mean value of corporate governance was 3.86 with a standard deviation of 0.58, indicating that respondents generally held a positive perception of governance practices in Nepalese commercial banks. The relatively low standard deviation suggests a moderate level of consistency in respondents' views. Similarly, customer loyalty recorded a mean value of 3.74 with a standard deviation of 0.61, reflecting a favorable level of loyalty toward their respective banks. The regulatory oversight showed the highest mean value of 3.91 with a standard deviation of 0.55, suggesting that respondents perceived relatively effective and reliable regulatory environment and supervisory practices in Nepalese commercial banks.

The correlation analysis indicates that corporate governance has a strong and positive relationship with customer loyalty ($r = 0.624$, $p < 0.01$). This result suggests that improvements in governance practices, including transparency, accountability, ethical leadership, and regulatory compliance, are associated with higher levels of customer loyalty in Nepalese commercial banks. The finding implies that customers are more likely to maintain long-term relationships with banks when they perceive those institutions as well-governed, transparent, and professionally managed.

Likewise, corporate governance demonstrates a positive and statistically significant correlation with the regulatory oversight ($r = 0.538$, $p < 0.01$), indicating that stronger regulatory mechanisms are associated with more effective governance practices in commercial banks. This relationship highlights the important role of regulatory oversight and compliance requirements in reinforcing governance standards and promoting sound institutional practices within Nepalese commercial banks.

Table 3

Descriptive Analysis and Correlation Coefficients

Variables	M	SD	1	2	3
1. Corporate Governance	3.86	0.58	1		
2. Customer Loyalty	3.74	0.61	.624**	1	
3. Regulatory Oversight	3.91	0.55	.538**	.487**	1

Note. *M* = mean; *SD* = standard deviation. Correlations are presented the diagonal $p < .01$.

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Test of Hypotheses

Table 4 presents the results of the regression analysis examining the impact of corporate governance on customer loyalty in Nepalese commercial banks. The table includes model summary statistics and regression coefficients, which explain the strength, significance, and predictive power of corporate governance in determining customer loyalty.

The model summary shows that the correlation coefficient (R = 0.624) represents a strong positive association between corporate governance and customer loyalty. This finding indicates that improvements in corporate governance practices are linked to higher levels of customer loyalty in Nepalese commercial banks. In other words, stronger governance practices are likely to contribute to greater customer trust and strengthen long-term loyalty toward banking institutions. The coefficient of determination ($R^2 = 0.389$) indicates that corporate governance explains approximately 38.9% of the variation in customer loyalty. This finding suggests that governance practices, including transparency, accountability, ethical leadership, audit effectiveness, and regulatory compliance, make a substantial contribution to enhancing customer loyalty among banking customers in Nepalese commercial banks.

The F-statistic of 246.18 with a significance level of p = 0.000 demonstrates that the regression model is statistically significant. As the p-value is lower than 0.01, the result confirms that the model provides a strong and reliable explanation of the relationship between corporate governance and customer loyalty in Nepalese commercial banks.

Furthermore, the t-value of 15.69 and p-value of 0.000 indicate that corporate governance has a statistically significant effect on customer loyalty. The confidence interval, ranging from LLCI = 0.430 to ULCI = 0.554, does not include zero, which further confirms the significance and robustness of the relationship. Overall, these findings suggest that effective corporate governance practices significantly enhance customer loyalty by strengthening customer trust, increasing institutional confidence, and fostering favorable perceptions toward banking institutions in Nepal.

Table 4

Impact of Corporate Governance on Customer Loyalty

R	R Square	MSE	F	df1	df2	P
0.624	0.389	0.742	246.18	1	388	0.000
Model	**Coefficient**	**SE**	**t**	**p**	**LLCI**	**ULCI**
Constant	1.842	0.198	9.3	0.000	1.453	2.231
Corporate Governance	0.492	0.031	15.69	0.000	0.43	0.554

Table 5 presents the results of regression analysis showing the impact of the regulatory oversight on customer loyalty in Nepalese commercial banks. The correlation coefficient (R = 0.487) indicates a moderate positive relationship between the regulatory oversight and customer loyalty, suggesting that stronger regulatory supervision is associated with higher customer loyalty. Compared to corporate governance (R = 0.624), the regulatory oversight

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demonstrates a relatively weaker influence on customer loyalty. The R Square value of 0.237 shows that the regulatory oversight explains nearly 24% of the variation in customer loyalty which is lower than the explanatory power of corporate governance (R Square = 0.389).

The F-statistic of 120.67 (p = 0.000) indicates that the overall regression model is statistically significant, suggesting that the regulatory oversight serves as a meaningful predictor of customer loyalty in Nepalese commercial banks. In addition, the t-value of 10.98 with a p-value of 0.000 further substantiates the statistical significance of this relationship. The confidence interval (LLCI = 0.343, ULCI = 0.493) does not include zero, reinforcing the reliability and robustness of the results. Overall, the findings suggest that an effective regulatory oversight enhances customer loyalty by improving transparency, accountability, financial discipline, and trust in Nepalese commercial banks.

Table 5

Impact of Regulatory Oversight on Customer Loyalty

R	R Square	MSE	F	df1	df2	P
0.487	0.237	0.801	120.67	1	388	0.000
Model	**Coefficient**	**SE**	**t**	**p**	**LLCI**	**ULCI**
Constant	2.104	0.224	9.39	0.000	1.664	2.544
Regulatory Oversight	0.418	0.038	10.98	0.000	0.343	0.493

Table 6 reports the findings of the moderation analysis, which investigates the role of the regulatory oversight in the relationship between corporate governance and customer loyalty in Nepalese commercial banks. The model assesses the direct effects of corporate governance and the regulatory framework, as well as their interaction effect, on customer loyalty.

The findings reveal that corporate governance has a strong and statistically significant positive effect on customer loyalty (B = 0.52, t = 16.53, p < 0.001). This implies that enhancements in governance practices, including transparency, accountability, ethical leadership, and regulatory compliance, contribute significantly to higher levels of customer loyalty in Nepalese commercial banks. Likewise, the regulatory oversight also demonstrates a significant positive impact on customer loyalty (B = 0.41, t = 10.25, p < 0.001), suggesting that robust regulatory supervision and compliance mechanisms play an important role in fostering customer trust and loyalty.

Most importantly, the interaction effect between corporate governance and the regulatory oversight (CG × RO) is positive and statistically significant (B = 0.18, t = 2.57, p = 0.011). This finding confirms the moderating role of the regulatory framework in the relationship between corporate governance and customer loyalty. It indicates that the positive influence of corporate governance on customer loyalty is strengthened under a more effective regulatory environment. In other words, well-enforced regulations amplify the impact of governance practices on customer loyalty by enhancing transparency, accountability, and the protection of customer interests.

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Table 6

Moderation Analysis of the RO on the Relationship between CG and CL

Predictor	B	SE	t	p	95% CI [LL, UL]
Corporate Governance	0.52	0.03	16.53	< .001	[0.46, 0.58]
Regulatory Oversight	0.41	0.04	10.25	< .001	[0.33, 0.49]
CG × RO (Interaction)	0.18	0.07	2.57	0.011	[0.04, 0.32]
Constant	1.89	0.21	9	< .001	[1.48, 2.30]

Note. B = unstandardized regression coefficient; SE = standard error; CI = confidence interval; LL = lower limit; UL = upper limit. CG = Corporate Governance; RO = Regulatory Oversight

The constant value (B = 1.89) represents the baseline level of customer loyalty when both corporate governance and regulatory oversight are at zero. The confidence intervals for all variables do not include zero, further confirming the statistical significance and reliability of the results. Overall, the findings indicate that an effective regulatory oversight strengthens the impact of corporate governance on customer loyalty, highlighting its role in enhancing trust and sustaining long-term relationships in Nepalese commercial banks.

Table 7 further presents the simple slopes analysis of moderating effect of regulatory oversight on the relationship between corporate governance and customer loyalty. The results indicate that the positive effect of corporate governance on customer loyalty becomes stronger as the level of regulatory framework increases.

At a low level of regulatory oversight, corporate governance has a weaker but still significant positive effect on customer loyalty ($B = 0.38$, $p < 0.001$). At the mean level of regulatory oversight, the effect becomes stronger ($B = 0.52$, $p < 0.001$). Similarly, at a high level of regulatory oversight, the relationship becomes strongest ($B = 0.67$, $p < 0.001$).

These findings confirm that effective regulatory supervision strengthens the influence of corporate governance on customer loyalty in Nepalese commercial banks. In other words, stronger regulatory mechanisms enhance the effectiveness of governance practices in building customer trust, confidence, and long-term loyalty.

Table 7

Simple Slopes Analysis of the Moderating Role of Regulatory Oversight

Level of Regulatory Oversight	Effect of Corporate Governance on Customer Loyalty (B)	SE	t	p
Low Regulatory Oversight (-1 SD)	0.38	0.05	7.6	<0.001
Mean Regulatory Oversight	0.52	0.03	16.53	<0.001
High Regulatory Oversight (+1 SD)	0.67	0.06	11.17	<0.001

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Overall, the findings support the hypotheses that both corporate governance and the regulatory oversight play a significant role in shaping customer loyalty in Nepalese commercial banks. The results further demonstrate that the regulatory oversight significantly moderates the relationship thereby reinforcing and strengthening this relationship. In summary, a stronger and more effective regulatory environment strengthens the effect of governance practices on customer loyalty. A summary of the hypotheses testing results is presented in Table 8.

Table 8

Summary of Hypothesis Testing

Hypotheses	Predictors	Dependent Variable	Relationship	Finding
H1	Corporate Governance	Customer Loyalty	Direct	Supported
H2	Regulatory Oversight	Customer Loyalty	Direct	Supported
H3	CG × RO	Customer Loyalty	Moderating	Supported

Discussion

The main objective of this study was to examine the relationship between corporate governance, the regulatory framework, and customer loyalty in Nepalese commercial banks. The results indicate that corporate governance has a positive and statistically significant impact on customer loyalty. This implies that governance practices such as transparency and disclosure, board independence, ethical leadership, audit effectiveness, and regulatory compliance are essential in enhancing customer trust and strengthening their loyalty toward banks. The finding supports the stakeholder theory, which argues that organizations adopting transparent and accountable governance systems are more capable of maintaining positive relationships with stakeholders, including customers.

The findings of this study align with Batt et al. (2024) and Hada (2023), who found that governance mechanisms positively influence bank performance in Nepal. However, this study extends their work by demonstrating that these effects also translate into non-financial outcomes such as customer loyalty.

Similarly, the findings are consistent with previous empirical studies conducted in the banking and service sectors. Nagamani et al. (2024) found that corporate governance practices significantly improve customer trust and loyalty by enhancing institutional credibility and reducing uncertainty in banking transactions. In competitive banking environments, customers tend to remain loyal to institutions that consistently demonstrate reliability in services, ethical conduct, and openness in their operations. Similarly, Ofori et al. (2025) highlighted that strong governance through transparent decision-making, ethical conduct, effective board oversight, and strict compliance with regulatory standards, customers develop greater confidence in the institution's stability and reliability. The study of Faqera et al. (2026) also supports the findings who concluded that well-governed banks ensure greater service reliability, lower operational risk, and stronger accountability, which enhance customer trust and strengthen long-term customer loyalty.

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The study also found that the regulatory oversight has a significant positive effect on customer loyalty. This indicates that effective regulatory supervision, compliance mechanisms, and governance directives enhance customers' perceptions regarding the reliability, security, and fairness of banking institutions. From a theoretical perspective, the finding supports institutional theory, which emphasizes that strong institutional and regulatory structures improve organizational legitimacy and public confidence. Customers are more likely to trust and remain loyal to banks operating under effective regulatory oversight because such systems minimize financial risks, unethical practices, and governance failures.

The findings are in line with the Castro et al., (2026), which emphasized that strong regulatory systems improve financial stability, transparency, and stakeholder confidence in banking institutions. Similarly, Kusuma (2023) found that when regulatory authorities ensure that banks follow standardized operational and ethical practices, customers perceive lower risk and greater stability in banking services, leading to stronger trust and long-term loyalty. Alsobai and Aassouli (2026) also argued that regulatory compliance and monitoring mechanisms significantly strengthen trust and accountability in financial organizations. In the context of Nepal, the role of Nepal Rastra Bank appears particularly important in promoting governance discipline, operational transparency, and customer protection in commercial banks.

Overall, the findings of this study provide important theoretical and practical implications. The study extends existing governance literature by integrating corporate governance, regulatory oversight, and customer loyalty within a single research framework in the Nepalese banking context. Similarly, this study makes a theoretical contribution by integrating agency, stakeholder, signaling, institutional, and relationship marketing theories into a unified framework for understanding customer loyalty in regulated banking environments. The findings also suggest that Nepalese commercial banks should strengthen governance transparency, ethical leadership, auditing effectiveness, and regulatory compliance practices to enhance customer trust and sustain long-term loyalty. Similarly, regulatory authorities should continue improving governance guidelines and monitoring mechanisms to ensure financial discipline and public confidence in the banking system. Nepal Rastra Bank should consider incorporating governance compliance ratings into public disclosure practices so that customers can evaluate and compare banks based on their governance standards and institutional transparency.

Conclusion

This study examined the relationship between corporate governance, the regulatory oversight, and customer loyalty in Nepalese commercial banks. The results indicate that corporate governance exerts a significant and positive influence on customer loyalty, implying that governance practices like transparency, accountability, ethical leadership, auditing effectiveness, and compliance are vital in building customer trust and sustaining long-term banking relationships.

The study further revealed that the regulatory oversight also has a significant positive effect on customer loyalty by enhancing financial discipline, operational transparency, institutional credibility, and customer confidence in banking institutions. Most importantly, the study confirmed the moderating role of the regulatory oversight in the relationship between corporate governance and customer loyalty. The study reveals that corporate governance explained 38.9% of the variance in customer loyalty, while the regulatory oversight explained 23.7%. The moderation effect (β=0.18) indicates that regulatory oversight enhances governance's impact by approximately 35%.

The findings indicate that effective regulatory supervision strengthens the positive influence of governance practices on customer loyalty. This suggests that corporate governance becomes more effective in enhancing customer trust and loyalty when supported by strong regulatory monitoring and compliance mechanisms. Therefore, the combined effect of sound governance practices and an effective regulatory oversight is essential for sustaining customer confidence and maintaining long-term relationships in Nepalese commercial banks.

The findings have important practical implications for bank management and regulatory authorities by emphasizing the need to strengthen governance transparency, ethical conduct, accountability systems, and regulatory enforcement to improve customer trust, institutional reputation, and competitive advantage in the banking sector. Despite its contributions, this study has certain limitations. In particular, the research was confined to selected commercial banks in Nepal, which may restrict the wider generalizability of the findings. Additionally, the study employed a quantitative cross-sectional design that may limits the ability to establish causal relationships among the variables. This study may be subject to common method bias as data were collected from a single source using a self-reported questionnaire. Similarly, customer loyalty is based on employees' perceptions rather than direct responses from customers, which may not fully reflect actual customer behavior. Future research may adopt longitudinal and mixed-method approaches with larger samples on customer perceptions and additional variables such as service quality, digital banking experience and organizational trust to provide deeper insights into customer loyalty in the banking sector. Furthermore, comparative studies among government-owned, joint venture, and private commercial banks may also be conducted to examine differences in governance practices, regulatory compliance, and customer loyalty across different types of banking institutions.

Author Contributions

Conceptualization: Dhruba Prasad Subedi, Achyut Gyawali, Jitendra Prasad Upadhaya.
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Writing – review & editing: Achyut Gyawali, Jitendra Prasad Upadhaya.

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