





“Service quality and customer satisfaction: Empirical evidence from the Nepalese banking industry”

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ARTICLE INFO	Shiva Raj Ghimire, Yadav Mani Upadhyaya and Nirdosh Agarwal (2025). Service quality and customer satisfaction: Empirical evidence from the Nepalese banking industry. <i>Banks and Bank Systems</i> , 20(1), 205-220. doi: 10.21511/bbs.20(1).2025.17
DOI	http://dx.doi.org/10.21511/bbs.20(1).2025.17
RELEASED ON	Tuesday, 18 March 2025
RECEIVED ON	Monday, 07 October 2024
ACCEPTED ON	Thursday, 09 January 2025
LICENSE	 This work is licensed under a Creative Commons Attribution 4.0 International License
JOURNAL	"Banks and Bank Systems"
ISSN PRINT	1816-7403
ISSN ONLINE	1991-7074
PUBLISHER	LLC “Consulting Publishing Company “Business Perspectives”
FOUNDER	LLC “Consulting Publishing Company “Business Perspectives”



NUMBER OF REFERENCES

43



NUMBER OF FIGURES

0



NUMBER OF TABLES

7

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BUSINESS PERSPECTIVES



LLC "CPC "Business Perspectives"
Hryhorii Skovoroda lane, 10,
Sumy, 40022, Ukraine
www.businessperspectives.org

Received on: 7th of October, 2024
Accepted on: 9th of January, 2025
Published on: 18th of March, 2025

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Conflict of interest statement:
Author(s) reported no conflict of interest

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SERVICE QUALITY AND CUSTOMER SATISFACTION: EMPIRICAL EVIDENCE FROM THE NEPALESE BANKING INDUSTRY

Abstract

This study aims to explore the application of the SERVQUAL (service quality) model in Nepal's banking sector, focusing on how its five measurements – tangibility, reliability, responsiveness, assurance, and empathy – affect customer satisfaction. A descriptive research design was employed, utilizing a stratified random sample of 384 customers from various banks in Nepal. Data were gathered through a structured questionnaire based on the SERVQUAL model, complemented by semi-structured interviews to capture both quantitative and qualitative insights into service quality measurements and overall satisfaction. The result of the study is that customer satisfaction was significantly high, with 77.4% of respondents indicating satisfaction with banking services, particularly appreciating the clarity of forms at 82.6%. The regression analysis revealed that tangibility, reliability, and responsiveness were the main factors influencing customer satisfaction, with coefficients of 0.335, 0.204, and 0.281, respectively. The findings indicate that tangibility, reliability, and responsiveness are the most influential factors affecting customer satisfaction in Nepalese banks, with significant positive relationships confirmed through regression analysis. While assurance and empathy also contribute positively, their impact is comparatively weaker, highlighting the critical areas for banks to focus on to enrich overall customer satisfaction and commitment. The study concluded that customer satisfaction is generally positive, especially in areas like the ease of understanding processes and online services. Significant opportunities for improvement exist in ATM services and overall banking operations. This underscores the necessity for banks to adapt and enhance their offerings to cultivate greater customer loyalty and retention in a competitive market.

Keywords

banking service, service quality, customer satisfaction, optimization strategies, responsiveness, reliability

JEL Classification

G21, M31, O16, L80

INTRODUCTION

In today's changing banking industry, service quality heavily influences customer impressions, contentment, and loyalty. The increasing integration of digital banking platforms has increased the pressure on banks to continually provide high-quality services. Consumers now demand flawless experiences from all points of contact; thus, in a crowded industry, providing excellent customer service is essential to standing out. In this situation, banks must focus on upholding good service standards to satisfy customers and guarantee their long-term commitment.

The SERVQUAL model offers a comprehensive framework to assess service quality through five key dimensions: reliability, assurance, tangibility, empathy, and responsiveness. Each of these dimensions plays a vital role in shaping the overall customer experience. Reliability refers to the bank's ability to consistently deliver accurate and depend-

able services, while assurance focuses on the competence and courtesy of employees, inspiring customer trust. Tangibility encompasses the physical aspects of service delivery, such as the appearance of facilities and the professionalism of staff. Empathy reflects the degree of personalized attention a bank offers its customers, while responsiveness measures the willingness and speed of addressing customer needs. Together, these dimensions provide a robust structure for evaluating service quality in the banking industry.

In the fiercely competitive Nepalese commercial banking industry, service quality plays a key role in determining customer satisfaction and fostering loyalty. This study embarks on a thorough exploration of the complex dynamics between service quality and customer satisfaction, with the SERVQUAL model as a foundational tool to break down and analyze the subtleties of this relationship. The SERVQUAL model, widely recognized for its multi-faceted approach to assessing service quality, evaluates five critical dimensions: reliability, assurance, tangibility, empathy, and responsiveness.

1. LITERATURE REVIEW

Consumers formulate opinions regarding the efficacy of a service. Parasuraman et al. (1988) conducted research with the objective of elucidating the manner. Akter and Masukujjaman (2010) conducted research that indicates a robust correlation between consumer satisfaction and attributes such as dependability, responsiveness, assurance, empathy, and tangibility. According to the study by Jha and Hui (2012), the majority of participants showed confidence with banking services. The study observed the relationship between service quality, consumer satisfaction, and loyalty in the banking industry. Auka (2012) established a substantial positive relationship between the private commercial banking industry in Bangladesh and service quality, customer happiness, customer value, and customer loyalty. Similarly, George and Kumar (2013) found that critical success variables, including customer value, service quality, and customer satisfaction, significantly influence a company's competitiveness. By analyzing data from two of India's most prominent institutions, State Bank of India (SBI) and HDFC Bank, Saha et al. (2017) established a positive correlation between SERVQUAL and customer satisfaction. In their study, Yona and Inanga (2014) observed the impact of banking industry changes in Tanzania on the quality of service provided by commercial banks and discovered that they had a positive effect. Using the SERVPERF (Service Performance) paradigm, Mekonnen (2015) examines the perceptions of private bank clients regarding the quality of service.

The objective of assessing the perceived quality of banking services, as per Qadri (2015), is to determine the areas in which consumers are most dissatisfied and their overall level of satisfaction. Bhattacharya et al. (2023) conducted a study based on the SERVQUAL model and found a strong relation between total customer satisfaction and the five characteristics of perceived service quality. Security, dependability, usability, and service quality are among the most critical factors influencing customer satisfaction (Yang & Lu, 2015). In the same vein, Iberahim et al. (2016) offer essential insights for administrators and legislators interested in enhancing customer satisfaction by emphasizing the importance of management's involvement in enhancing service quality. The most significant human-related factors that influenced customer satisfaction were reliability and responsiveness (Hennayake, 2017). Another critical human-related attribute is perceived service quality. Ranjith (2016) investigated model banks as profit-utility-maximizing organizations, examining factors such as incentive-driven productivity following deregulation and the incentives of bankers (optimal effort). The SERVQUAL components yielded a negative score in an empirical investigation conducted by Kelemu (2017). Factors such as dependability, responsiveness, empathy, security, and tangibility influence the findings of customer satisfaction with service quality at retail institutions in Vietnam (Hong, 2018).

Likewise, Ahmed et al. (2019) assert that consumers are considerably more inclined to remain loyal to a brand and even recommend it to others when they are satisfied with mobile banking

services. This behavior cultivates trust and long-term relationships. Vencataya et al. (2019) confirm that the SERVQUAL model is a valuable instrument for assessing and enhancing the quality of banking services. They found that empathy is the foremost predictor of customer pleasure, while all five dimensions of service excellence have considerable influence. Manjula Bai (2019) elaborates on the substantial positive influence of service quality on banking clients. The satisfaction of clients with the service they receive from the bank and the effectiveness of the bank in meeting their savings account requirements are assessed by Abbasi et al. (2019).

The service quality dimension significantly influences the level of satisfaction a consumer experiences with their online banking experience. This dimension assesses the impact of responsiveness, conviction, convenience, efficiency, and security. Customer loyalty is positively influenced by the quality of total banking services, as evidenced by data analysis and hypothesis testing (Fattah, 2024). In their investigation of mobile banking services in Nepalese commercial banks, Goet and Kharel (2022) identified a strong positive correlation between four variables: security, accessibility, communication, and time savings. In the same vein, Ghimire (2021) found that consumers are significantly more content when they can communicate effectively and save time.

A study by Yu and Nuangjamnong (2022) on the effect of mobile banking services on customer satisfaction found that factors such as transaction rapidity, availability, cost, flexibility, simplicity of use, and relative advantage substantially stimulate pleasure. Marei et al. (2022) recommend that banking decision-makers enhance innovation to enhance consumer satisfaction and company success. Arora and Sharma (2022) argue in a similar vein, asserting that consumers who are satisfied with their digital banking experiences have superior financial outcomes. Shanmugam and Chandran (2022) emphasize the five fundamental components of e-banking: security, dependability, assurance, technical advancement, and speed. These elements are essential for the operation of online financial services. Similarly, Nginyu (2023) found that customer satisfaction was significantly influenced

by responsiveness, convenience, and security, although relative advantage and cost had a negligible impact.

Yoeung et al. (2023) conducted a specific investigation into ATM services to determine the significance of improving service quality to increase customer satisfaction. This could potentially result in increased collaboration and improved services. An awareness campaign is necessary to increase the acceptability and satisfaction of electronic banking, as Situmorang (2024) has identified a favorable correlation between the two. The study by Dias et al. (2023) utilized multiple linear regressions to demonstrate that commercial bank customers in Sri Lanka's Colombo District are more satisfied with their mobile banking services when they are reliable, efficient, simple to navigate, and trustworthy.

Likewise, Neupane (2013) conducted a study that employed the Tobit regression model to analyze the factors that influence the productivity and efficiency of Nepalese commercial banks. The study found that profitable banks in Nepal with a higher capital adequacy ratio and reduced debt are more efficient. In the paper by Luintel et al. (2014), the elements that influence performance are revealed through financial ratios. Additionally, it employs an analytical hierarchy approach founded on financial characteristics to ascertain the financial recital of commercial banks in Nepal. The widespread adoption of internet services offered by Nepalese institutions is hindered by public concerns (Shrestha, 2018). Gaining an understanding of consumer behavior is essential for enhancing the customer experience, satisfaction, and loyalty.

To determine the extent to which consumers understand mobile banking, Ghimire (2021) explores the variables that influence their satisfaction, the challenges they face, and the recommendations managers may provide. Khadka and Maharjan (2017) evaluate consumer contentment in mobile banking by comparing products and services to consumer expectations. Ghimire and Thapa (2021) examine consumer satisfaction by emphasizing the significance of affordability and accessibility. Customer privacy, security, and responsiveness ought to be prioritized by commercial institutions in Nepal (Shrestha et al., 2021).

This association was shown to positively influence the nature of service interactions. This correlation was determined to have a beneficial impact on the character of service relationships. Karmacharya (2022) employed the SERVPERF model to compute the range to which various aspects of service quality inclined the satisfaction of consumers in his investigation of Nepalese institutions.

In addition to economic development and environmental protection, Vencataya et al. (2019) discovered that automated teller machines (ATMs) and mobile banking have become significant variables in promoting sustainability, affordability, safety, efficiency, and accessibility. Mobile banking is also spearheading the campaign for financial inclusion, particularly in rural regions, in addition to reducing costs and for both users and institutions (Sthapit, 2023). Ghimire and Dhakal (2023) observe that Nepal's mobile banking industry is expanding as a result of the country's growing internet-dependent population, government initiatives, competitive banking practices, and the relative simplicity of digital solutions. Lamsal and Basnet (2023) investigated the relationship between the act of Nepalese commercial banks and the size of audit committees. They found that effective corporate governance mitigates concerns regarding ownership and control. Maharjan (2023) examined 16 commercial banks' annual reports from 2014/15 to 2021/22 and found a positive correlation between SERVQUAL results and customers' satisfaction with the service they received.

The objective of this study is to explore the application of the SERVQUAL model in Nepal's banking sector to assess how its five dimensions – tangibility, reliability, responsiveness, assurance, and empathy – affect customer satisfaction. By studying the impact of each dimension, the research seeks to identify which factors most significantly influence customer perceptions and satisfaction levels in the unique context of Nepalese banks. This understanding will help banks enhance service quality, improve customer experiences, and foster greater customer loyalty, ultimately strengthening their competitive position in the evolving market.

Drawing from the literature review, five hypotheses were formulated to examine the relation between the dimensions of service quality and customer satisfaction.

- H1: *There is a significant positive relationship between tangibility (physical facilities, equipment, and appearance of personnel) and customer satisfaction in Nepalese banks*
- H2: *There is a significant positive relationship between reliability (ability to perform the promised service dependably and accurately) and customer satisfaction in Nepalese banks*
- H3: *There is a significant positive relationship between responsiveness (willingness to help customers and provide prompt service) and customer satisfaction in Nepalese banks*
- H4: *There is a significant positive relationship between assurance (knowledge and courtesy of employees and their ability to inspire trust and confidence) and customer satisfaction in Nepalese banks.*
- H5: *There is a significant positive relationship between empathy (caring, individualized attention provided to customers) and customer satisfaction in Nepalese banks.*

2. DATA AND METHODS

This study design is used to delineate the present condition of service excellence and customer satisfaction in the Nepalese banking industry. It has offered insights into the perception and measurement of these characteristics by consumers.

The population comprises consumers from 20 banks in Nepal, including public, commercial, and international institutions. A stratified random sampling method is used to guarantee that the sample accurately reflects diverse client segments, including retail, corporate, and numerous demographic categories (e.g., age, gender, income level). A sample size of 384 is calculated using statistical techniques to provide enough power for data analysis (Cochran, 1939). A total of 400 questionnaires were distributed to respondents from 20 commercial banks, encompassing both private and government institutions, across all seven provinces of Nepal, ensuring comprehensive geographical representation. Remarkably, 390 questionnaires were completed and returned, of which

380 were filled out and selected for analysis, resulting in an impressive response rate of 95%. These efforts were aimed at capturing diverse customer perspectives from commercial banks across the country. The robust response rate implies the reliability of the collected data for subsequent analysis, underscoring the validity and credibility of the study's findings.

Responses were measured using a five-point Likert scale (1 = strongly disagree, 5 = strongly agree) to evaluate the extent of respondents' agreement with statements regarding service quality and satisfaction. According to Peterson (1994), a Cronbach's alpha score of 0.7 or higher is considered acceptable for reliability. In addition to the survey, semi-structured interviews were conducted with a selected group of customers to gather qualitative insights into their experiences and perceptions of service quality. The internal consistency of the measurement tool was found to be reliable across all six factors, with Cronbach's alpha values exceeding 0.7 ($\alpha > 0.7$). Among these, the service quality factor exhibited the highest reliability ($\alpha = 0.796$), followed by customer satisfaction ($\alpha = 0.746$). Table 1 presents the Cronbach's alpha values for six different factors during the pilot study and the final study, offering insights into the internal consistency and reliability of the measurement scale. Cronbach's alpha, a key indicator of reliability, reflects the degree of internal consistency among items within each factor, with values closer to 1 signifying higher reliability. The Cronbach's alpha values for all factors increased in the final study compared to the pilot study, indicating enhanced reliability with a larger sample size (see Table 1).

Table 1. Reliability of instrument

Source: Field Survey (2023).

Factor	Cronbach's Alpha of Entire Study
Service quality	0.796
Responsiveness	0.778
Empathy	0.790
Assurance	0.746
Tangibility	0.778
Customer Satisfaction	0.760

These findings suggest that the measurement instruments used in the entire study demonstrate

greater reliability, providing researchers with more robust and dependable data for analyzing the factors influencing service quality and customer satisfaction within the studied context.

The data collection process involves administering the questionnaire both online (via email and social media) and in-person (at bank branches and public venues) to guarantee a comprehensive and varied sample (see Appendix). Informed permission is secured from all participants, and confidentiality is maintained to safeguard their personal information and replies, as noted by Peterson (1994).

The survey data were analyzed using statistical software (SPSS) to elucidate the correlations between service quality aspects and customer satisfaction. The learning started with descriptive statistics, which summarized the data and provided a basic picture of the replies. This encompasses metrics of central tendency (mean, median) and variability (standard deviation) to characterize consumer views of service quality and satisfaction levels.

Subsequently, inferential statistics have been used to examine the correlations between the independent variables (dimensions of service quality) and the dependent variable (customer satisfaction). Correlation analysis has been performed to assess the degree and direction of the association between each component of service quality – tangibility, dependability, responsiveness, assurance, and empathy – and customer satisfaction. The Pearson correlation coefficient has been used to assess these correlations, with the hypothesis positing a positive correlation between each distinct facet of service quality and customer happiness.

Subsequently, regression analysis has been used to describe the comprehensive link between several variables of service quality and customer happiness. A multiple linear regression analysis has been performed to ascertain the degree and nature of these correlations, offering insights into the extent to which each service quality factor affects customer satisfaction. This stage is essential for comprehending the most influential elements of service quality in the banking industry. The regression model is as follows.

$$CS = \beta_0 + \beta_1 \text{ Tan gibility} + \beta_2 \text{ Reliability} + \beta_3 \text{ Re sponsiveness} + \beta_4 \text{ Assu re nce} + \beta_5 \text{ Empathy} + \varepsilon, \tag{1}$$

where CS is the customer satisfaction; β_0 is the intercept; $\beta_1, \beta_2, \beta_3, \beta_4,$ and β_5 represent the coefficients for each service quality dimension, and ε is the error term representing the unexplained variation in customer satisfaction.

3. RESULT

The summary of the demographic and socio-economic status of the respondents is provided in Table 2.

Table 2. Demographic features of respondents

Source: Field Survey (2023).

Variables	Characteristics	Occurrence	Percent
Sex	Male	215	56.6
	Female	165	43.4
Age Group	18-30	177	46.6
	31-40	75	19.7
	41-50	75	19.7
	50 and above	53	13.9
Married	Unmarried	156	59
	Married	224	41
Ethnicity	Brahmin/Chhetri	273	71.8
	Adibashi/Janajati	78	20.5
	Dalits	17	4.5
	Muslim	5	1.3
	Others	7	1.9
Total		380	100

Table 2 presents demographic information from a sample of 380 individuals, revealing key characteristics such as sex, age, marital status, and ethnicity. Among the participants, 56.6% are male and 43.4% are female. The age distribution indicates that the largest group is between 18 and 30 years old, comprising 46.6% of the sample, while those aged 31-40 and 41-50 each account for 19.7%. Only 13.9% are aged 50 and above. In terms of marital status, a majority are unmarried (59%), compared to 41% who are married. Ethnically, the sample is predominantly Brahmin/Chhetri, making up 71.8%, followed by Adibashi/Janajati at 20.5%, Dalits at 4.5%, Muslims at 1.3%, and Others at 1.9%. These data highlight the diverse composition of the group across these demographic dimensions.

Table 3. Educational, professional, and income distribution of respondents

Source: Field Survey (2023).

Variable	Attributes	Frequency	Percent
Education	Illiterate	4	1.1
	Primary Level	4	1.1
	Secondary Level	36	9.5
	Bachelor Level	155	40.8
	Masters and above	181	47.6
Profession	Private employee	128	33.7
	Government employee	121	31.8
	Business	44	11.6
	Self-employed	31	8.2
	Health worker	19	5
	Others	13	3.4
	Labor	11	2.9
	Farmer	7	1.8
	Foreign employment	6	1.6
Annual Income (Self-Reported)	Less than NRS. 0.1 million	62	16.3
	NRS. 0.1 to less than 1.0 million	236	62.1
	More than NRS. 1.0 million	82	21.6
Total		380	100

Note: NRS: Nepalese Currency; USD 1 = NRS 133.42 (April 12, 2024).

Table 3 shows the demographic, social, and economic attributes of respondents. In the survey, 57% of males have participated in the study. Similarly, the majority are unmarried (59%). The highest number of respondents (47%) falls between the ages of 18 and 30 years. Ethnically, almost three-fourths (72%) belong to Brahmin/Chhetri, and the highest number of respondents (47.6%) has possessed a Master Degree. Among the respondents, it was found that one third respondent (33.7%) was employed in the private sector. The self-reported income highest number (62.1%) has annual income NRs. 0.1 to less than 1.0 million.

Table 4 reflects the satisfaction level of customers with banking services. The majority of customers express agreement (66.3%) or strong agreement (11.1%) with the services, and the ease of empathetic and filling out forms and slips elicits a similar sentiment (82.6% agree or strongly agree). Satisfaction with ATM services is more varied, with 48.4% neutral and a combined 50.4% agreeing or strongly agreeing. A bank's performance

Table 4. Customer satisfaction levels across banking services

Source: Field Survey (2023).

Customer Satisfaction	Frequency (%)					Mean	SD
	SA	A	N	SDA	SD		
Satisfied with services	11.1	66.3	19.2	2.6	0.8	2.16	0.675
It is simple to understand and fill out forms and slips	10.8	71.8	13.2	3.9	0.3	2.11	0.64
Satisfaction with the bank's ATM services	11.3	37.1	37.4	12.6	1.6	2.56	0.907
Banks operation is simple	3.9	33.2	48.2	13.4	1.3	2.75	0.784
Online and mobile banking services	11.6	51.3	32.1	4.2	0.8	2.31	0.761
Cheque book at any branch	13.9	61.6	16.1	7.6	0.8	2.2	0.799
Continue the same bank	8.9	58.4	28.2	3.7	0.8	2.29	0.712

Note: SA: Strongly Agree, A: Agree, N: Neutral, DA: Disagree, SDA: Strongly Disagree, SD: Standard Deviation.

has the highest neutrality at 48.2% and the lowest agreement rates at 37.1%. Online and mobile services, as well as checkbook availability at any branch, receive high satisfaction rates, with over 60% agreement in both categories. Regular customers constitute 67.3% of those who agree or strongly agree that they will continue on the same bank. The mean score, close to 2, indicates the level of satisfaction is more than average. Overall, the data suggest a positive reception of the bank's services, with some areas showing room for improvement.

The correlation matrix (see Table 5) outlines the relationships between customer satisfaction and five key factors: tangibility, reliability, responsiveness, assurance, and empathy. Customer satisfaction shows a strong positive correlation with reliability (0.64), responsiveness (0.60), assurance (0.51), and empathy (0.53), indicating that higher levels of these factors are associated with greater customer satisfaction. Tangibility, however, has a negligible correlation with customer satisfaction (0.05), suggesting it may not significantly influence overall satisfaction levels. Among the factors themselves, reliability correlates moderately with responsiveness (0.64) and assurance (0.68), indicating that improvements in reliability may posi-

tively affect responsiveness and assurance. As a whole, the matrix shows that tangibility isn't really important when it comes to increasing customer happiness, but responsiveness, empathy, and dependability are.

Table 6 presents the results of a statistical analysis examining the impact of various factors on customer satisfaction. The coefficients indicate the extent to which each factor influences customer satisfaction, with tangibility having the strongest effect (0.335), followed by responsiveness (0.281) and reliability (0.204). These coefficients are statistically significant, as indicated by their low p-values (0.0000 for both tangibility and responsiveness and 0.0003 for reliability), suggesting that these factors are reliable predictors of customer satisfaction.

Assurance and empathy also contribute to customer satisfaction, but to a lesser extent, with coefficients of 0.0528 and 0.0426, respectively. Assurance has a p-value of 0.0472, indicating it is statistically significant, while empathy's p-value of 0.0003 shows a strong association despite a smaller effect size. The constant term (C) is 0.2299 with a p-value of 0.0288, implying that there is a baseline level of customer satisfaction when all factors are zero.

Table 5. Correlation matrix

Factor	Customer Satisfaction	Tangibility	Reliability	Responsiveness	Assurance	Empathy
Customer Satisfaction	1.00	-	-	-	-	-
Tangibility	0.05	1.00	-	-	-	-
Reliability	0.64	0.06	1.00	-	-	-
Responsiveness	0.60	0.07	0.64	1.00	-	-
Assurance	0.51	0.01	0.68	0.53	1.00	-
Empathy	0.53	0.11	0.53	0.57	0.50	1.00

Table 6. Regression analysis of service quality dimensions on customer satisfaction

Variables	Coefficient	Std. Error	t-Statistics	Probability
Customer Satisfaction	0.005581	0.037932	0.147131	0.0088
Tangibility	0.335345	0.054318	6.173704	0.0000
Reliability	0.204262	0.055917	3.652947	0.0003
Responsiveness	0.281105	0.058132	4.835652	0.0000
Assurance	0.052757	0.048051	1.097951	0.0472
Empathy	0.04259	0.051426	0.82818	0.0003
C	0.229894	0.134748	1.706097	0.0288
R-squared	0.493839	Durbin-Watson stat		1.809311
Adjusted R-squared	0.487072	-		-
S.E. of regression	0.405961	-		-
Sum squared resid	61.63674	-		-
Log likelihood	-193.6031	-		-
F-statistic	72.97914	-		-
Corresponding p-value	0.000000			

The model's goodness-of-fit is quantified by an R-squared value of approximately 0.494, suggesting that roughly 49.4% of the variance in customer satisfaction is accounted for by the independent variables in the model. The adjusted R-squared value of 0.487 considers the number of predictors, thereby confirming the model's robustness. The F-statistic (72.979) and corresponding p-value (0.0000) indicate that the overall model is statistically significant. The analysis underscores the significance of tangibility, reliability, and responsiveness in enhancing customer satisfaction, while also acknowledging the roles of assurance and empathy.

The hypotheses presented examine the relationships among different service quality factors and customer satisfaction in Nepalese banks, as informed by the regression and correlation analyses conducted.

H1 indicates a significant positive association between tangibility and consumer happiness. The regression analysis reveals that tangibility has a strong coefficient of 0.335 and a very significant p-value of 0.0000, suggesting that improvements in physical facilities, equipment, and staff appearance are likely to boost customer satisfaction in Nepalese banks.

H2 demonstrates a significant positive association between dependability and customer satisfaction. The dependability coefficient of 0.204 is statistically significant, with a p-value of 0.0003, indicating that the continuous fulfilment of promises

by banks is associated with heightened customer satisfaction levels. This discovery underscores the need of dependable and accurate service provision.

H3 indicates a significant positive association between responsiveness and client satisfaction. The regression analysis reveals a coefficient of 0.281 and a p-value of 0.0000, indicating that a bank's preparedness to help clients and provide timely service substantially improves overall satisfaction. This highlights the significance clients have on timely assistance.

H4 examines the relationship between assurance and client happiness. The coefficient for assurance is 0.0528, accompanied by a p-value of 0.0472, indicating a positive but somewhat lower impact compared to the prior components. This indicates that although staff expertise and civility favorably impact customer satisfaction, the effect is very little.

H5 analyzes the relationship between empathy and customer satisfaction. The coefficient is 0.0426, with a significant p-value of 0.0003, indicating that the delivery of compassionate and personalized attention enhances customer happiness. The impact, however, diminished, underscores the importance of personalized service in fostering consumer loyalty.

All five hypotheses exhibit substantial positive relationships between the corresponding variables and customer satisfaction in Nepalese banks. Tangibility, dependability, and responsiveness are the predominant variables, with assurance and empathy also playing a significant role.

4. DISCUSSION

The study provides comprehensive insights into customer demographics, socio-economic factors, and satisfaction levels in the Nepalese banking sector. It emphasizes the predominance of young, educated customers and highlights the importance of tailoring services to meet their specific needs. This observation aligns with the foundational work of Parasuraman et al. (1988), who outlined key dimensions of service quality and their impact on consumer perceptions. By identifying the demographic trends, the study allows banks to better understand their target audience, which is crucial for effective service delivery.

The study reveals that the predominant demographic consists of young, unmarried individuals primarily from the Brahmin/Chhetri ethnic group. This finding reflects the results of Ahmed et al. (2019), who argue that pleased customers are more prospective to promote banking services. Additionally, the socio-economic profile indicates a well-educated customer base, with many respondents holding Master's degrees and earning significant incomes. This observation is consistent with Auka (2012) who emphasize the necessity for banks to adapt their offerings to attract and retain this educated clientele. Understanding these demographic and socio-economic factors is vital for enhancing customer engagement and satisfaction.

The discussion also highlights generally positive customer satisfaction levels, particularly regarding the ease of understanding banking forms and the availability of online and mobile services. This aligns with findings from Venkataya et al. (2019), which affirm that various service quality dimensions substantially contribute to customer satisfaction. However, the study identifies critical areas for improvement, such as ATM services and overall bank operations, which reflects insights from Goet and Kharel (2022). Their research indicates that enhancing service quality can significantly influence customer satisfaction, reinforcing the idea that banks must continuously evolve their offerings to meet changing customer needs. This is further supported by George and Kumar (2013), who identify service quality as a critical factor in maintaining organizational competitiveness.

The analysis of service quality factors in the study indicates that tangibility, reliability, and responsiveness are the most significant contributors to customer satisfaction. This finding supports the conclusions drawn by Akter and Masukujjaman (2010) that highlight the positive impact of these dimensions on customer attitudes. Furthermore, the strong positive relationship among these factors resonates with Hennayake (2017), who found that reliability and responsiveness are crucial for enhancing customer satisfaction. While assurance and empathy also play a role, their impact appears to be comparatively weaker. This observation parallels the study by Bhattacharya (2023), which demonstrated a significant association between perceived service quality dimensions and overall customer satisfaction.

The reliability of the study's measurement instruments, indicated by high Cronbach's alpha scores, bolsters the credibility of the findings. This methodological rigor echoes the approach taken by Saha et al. (2017), who employed the SERVQUAL model to assess customer satisfaction in Indian banks. Moreover, the model's explanatory power, with an R-squared value of approximately 49.4%, suggests that while significant factors influencing customer satisfaction have been identified, additional variables may also play a role. This notion is consistent with findings from Kelemu (2017), who noted that multiple factors can affect customer satisfaction in the banking sector.

This study examines the hypotheses concerning the impact of demographic and socio-economic factors on customer satisfaction within Nepalese banks. The findings indicate that the primary demographics – young, unmarried individuals from the Brahmin/Chhetri ethnic group – shape customer perceptions, consistent with Jha and Hui (2012). The second hypothesis, which asserts that service quality dimensions (tangibility, reliability, responsiveness, assurance, and empathy) positively influence customer satisfaction, is likewise supported. The study highlights tangibility, reliability, and responsiveness as significant factors, consistent with the findings of Akter and Masukujjaman (2010). Although assurance and empathy are recognized, their diminished influence indicates that not all dimensions hold equal significance.

Moreover, the hypothesis regarding the relationship between service quality and customer loyalty is reinforced by findings that enhancing service quality fosters stronger customer relationships. This aligns with George and Kumar (2013), highlighting that effective service quality is crucial for customer retention. The discussion further validates the Venkataya et al. (2019) hypotheses through strong correlations and regression analysis, particularly emphasizing reliability and responsiveness, consistent with findings from Hennayake (2017). The study emphasizes the importance of enhancing service quality across different dimensions to foster customer loyalty. This aligns with the literature, particularly with Marei et al. (2022), who highlight the need for innova-

tion to improve customer satisfaction and business performance.

The study underscores the necessity for banks in Nepal to focus on enhancing service quality across various dimensions to foster customer loyalty. This aligns with literature suggesting that innovation and responsiveness to customer needs are vital for improving satisfaction and overall business performance. Both the study and the existing literature highlight that by addressing identified gaps and leveraging strengths in service delivery, banks can significantly enhance customer relationships, satisfaction, and loyalty in a competitive landscape.

CONCLUSION

The aim of this study is to examine how the SERVQUAL model's five dimensions influence customer satisfaction in Nepal's banking sector. This study underscores the fundamental relationship between service quality and customer satisfaction in the Nepalese banking sector. The findings reveal a predominant demographic group of young, unmarried individuals, primarily from the Brahmin/Chhetri ethnic group, indicating that this group is essential for understanding customer preferences and behaviors. With a well-educated clientele, many holding Master's degrees and earning between NRS 0.1 and less than 1.0 million annually, banks are presented with an opportunity to tailor their services to meet the specific needs of this demographic effectively. Customer satisfaction levels are generally favorable, particularly regarding the ease of understanding banking processes and the availability of online and mobile services. However, notable areas for improvement, such as ATM services and overall banking operations, highlight the need for banks to continuously adapt to enhance customer experiences.

The analysis of service quality factors demonstrates that tangibility, reliability, and responsiveness are the most significant contributors to customer satisfaction, while assurance and empathy also play a role, albeit to a lesser extent. The strong reliability scores of the measurement tools, along with an R-squared value of approximately 49.4%, affirm the credibility of the findings and suggest that while the identified factors significantly influence customer satisfaction, there are likely other variables worth exploring. This study emphasizes the need for banks in Nepal to enhance service quality across various dimensions, particularly in areas that directly impact customer satisfaction. By addressing existing gaps and capitalizing on their strengths, banks can cultivate stronger customer relationships, improve overall satisfaction, and foster greater loyalty and retention in an increasingly competitive landscape.

AUTHOR CONTRIBUTIONS

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APPENDIX A

Table A1. Questionnaire

Section A: Self-administered questionnaire

S. N.	Questions	Response
Section A: Socio-demographic Information		
1.	Name	
2.	Age (completed years)	
3.	Gender	a) Male b) Female c) Others
4.	Marital status	a) Married b) Single c) Divorced d) Separated e) Others.....(specify)
5.	Ethnicity	a) Brahmin/ Chhetri b) Adibashi/janajati c) Dalits d) Muslim e) Others.....(specify)
6.	Educational level	a) Illiterate b) Primary level c) Secondary level d) Bachelor e) Masters and above
7.	Occupation	a) Private employee b) Government employee c) Business d) Farmer e) Health worker f) Self-employed g) Foreign employment h) Labor i) Others.....(specify)
8.	Annual Income of Family (average)	a) Less than 1 Lakh b) 1-10 Lakh c) More than 10 Lakh

Section B: Bank related information of the respondent

S. N.	Questions	Response
1.	Name of the Bank	
2.	Type of Bank	a) Private b) Public
3.	Types of account	a) Saving b) Fixed deposit c) Current
4.	Main reason to select the bank	a) High interest rate on deposit b) Low service charge c) Wide branch network/Location d) Efficient, reliable, and fastest services e) Public image of the bank f) Recommendations from friends and relatives g) Personal relationship h) Others (please specify).....
5.	Major problem that you have faced from this bank while receiving services?	a) ATM Service b) Employees' behavior c) Opening/Closing accounts d) Internet Banking Services e) Others (Please specify).....

Table A1 (cont.). Questionnaire**Section C:** Please tick mark on appropriate option

S.N.	Service Quality Levels on Banking	Yes	No	Don't Know
1.	Are you satisfied with the bank's reliability (accurate and on-time services)?			
2.	Are you satisfied with the bank's responsiveness (willingness to assist customers and fast and efficient service)?			
3.	Are you satisfied with empathy (employee behavior, personalized or customized service)?			
4.	Are you satisfied with assurance (friendliness, trust, and confidence to the staff) in your bank??			
5.	Are you satisfied with the communication system of your bank (understandable and timely information and listening to customers)?			
6.	Are you satisfied with the product and services provided by your bank?			
7.	Does your bank offer a competitive interest rate?			
8.	Are you satisfied with the service charges by your bank?			
9.	Do you recommend your bank to others?			

Section D: Please use the following table to rank your responses to situations given below. (Please tick mark on appropriate option)

S.N.	Service quality measurement variables	Perception				
		Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1.	The bank provides services at the promised time					
2.	Employees of the bank are sincerely handling customers' problems.					
3.	The bank provides all the services as per the agreement (promised).					
4.	The bank maintains timely and error-free records.					
5.	The bank provides accuracy in all types of transactions.					
S.N.	Responsiveness	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1.	Employees of the bank are willing to help customers.					
2.	Bank provides prompt service to customers.					
3.	Bank ensures the customer is informed about when services will be performed.					
4.	Employees are ready to respond to customers' requests.					
5.	Bank provides financial advice to the customers.					
S.N.	Empathy	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1.	The bank provides convenient business hours.					
2.	The bank provides a convenient service charge.					
3.	Employees give personal attention to the customers.					
4.	Employees understand the customer's specific needs.					
5.	The bank focuses on fulfilling customers' needs.					
S.N.	Assurance	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1.	Employee's behavior brings confidence in customers.					
2.	Employees are consistently polite and well mannered.					
3.	Employees have the knowledge to answer customer questions.					
4.	The bank makes customers feel safe in their transactions.					
5.	Customers can easily trust employees of their bank.					

Table A1 (cont.). Questionnaire

S.N.	Reliability	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1	The bank consistently provides services as promised (e.g., timely transactions and loan processing).					
2	The bank resolves customer issues and complaints promptly and efficiently.					
3	The bank's services are accurate and free from errors (e.g., no mistakes in transactions or records).					
4	The bank consistently meets its service commitments, such as loan disbursements and fund transfers, within the expected time frame.					
5	The bank provides dependable customer service support, both in-person and through digital platforms.					
S.N.	Tangibility	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1.	The physical infrastructure of the bank (e.g., branch offices, ATM kiosks) is modern and well-maintained.					
2.	The banking technology, including ATMs and online banking platforms, is up-to-date and user-friendly.					
3.	The bank's premises, including seating areas and counters, are clean and organized.					
4.	The appearance of the bank staff is professional and presentable.					
5.	The physical materials provided by the bank, such as forms, brochures, and signage, are clear and easy to understand.					
S.N.	Customer satisfaction	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1.	I am satisfied with the services provided by the bank.					
2.	Banks forms and slips are easy to understand and fill.					
3.	I am satisfied with the bank's ATM services.					
4.	The performance of the bank is more than my expectation.					
5.	Online and mobile banking services of the banks are secure and reliable.					
6.	The bank provides clear and understandable bank statements.					
7.	I can apply for a cheque book at any branch where I find convenient.					
8.	I will always be the customer of this bank.					