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EXAMINING THE INTERPLAY OF SERVICE QUALITY, CUSTOMER EXPERIENCE, AND SATISFACTION: EVIDENCE FROM DIGITAL AND CONVENTIONAL BANKING

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Abstract

This study examines customer satisfaction in digital and conventional banking by analyzing the impact of service quality and the mediating role of customer experience. Using a quantitative research design, primary data was collected from banking customers in Telangana, India. The study reveals that while service quality influences satisfaction in both banking types, customer experience significantly mediates this relationship especially in conventional banking. Key service dimensions include responsiveness, reliability, security, and personalization. Findings suggest banks should adopt hybrid strategies to enhance service quality and satisfaction. This research offers a comparative framework for developing customer-centric banking models.

Keywords: Service Quality, Customer Satisfaction, Customer Experience, Digital Banking, Conventional Banking.

1.1 INTRODUCTION

In today's competitive banking industry, service quality has become a crucial determinant of customer satisfaction, influencing customer loyalty and retention in both digital and conventional banking (Parasuraman, Zeithaml, & Berry, 1988). The emergence of digital banking has transformed the way customers interact with financial institutions, offering convenience, security, and efficiency. However, despite the widespread adoption of digital banking, conventional banking remains relevant for customers who value personalized interactions, trust, and human engagement (Kaura, Prasad, & Sharma, 2015). While several studies have explored the direct impact of service quality on customer satisfaction, limited research has examined the mediating role of customer experience in shaping this relationship across both banking models.

Customer experience refers to the overall perception and emotions a customer develops throughout their interaction with banking services, whether through physical branches or digital platforms (Lemon & Verhoef, 2016). It encompasses various elements, including ease of access, responsiveness, security, and the quality of interactions with bank representatives or digital interfaces. Research has shown that a positive customer experience enhances the effect of service quality on satisfaction, making it a crucial mediator in this relationship (Kandampully, Zhang, & Bilgihan, 2015). In digital banking, a seamless user interface, personalization, and trust in data security contribute to an enhanced customer experience, thereby improving customer satisfaction (Pikkarainen et al., 2004). Conversely, in conventional banking, face-to-face interactions, staff behavior, and service responsiveness shape customer experience and influence satisfaction levels (Ladhari, 2009).

Several scholars have explored customer experience as a mediator between service quality and satisfaction. For instance, Xu et al. (2020) found that customer experience significantly enhances the relationship between service quality and satisfaction in digital banking, as users seek convenience, efficiency, and security. Similarly, Ali et al. (2021) demonstrated that in

conventional banking, personalized customer interactions and staff responsiveness improve satisfaction levels through positive customer experiences. Furthermore, Dabholkar, Shepherd, & Thorpe (2000) highlighted that customer experience strengthens the perceived value of banking services, reinforcing the impact of service quality on satisfaction.

Despite these findings, there remains a research gap in comparing the mediating role of customer experience in both digital and conventional banking. Understanding how service quality affects satisfaction differently across these models through customer experience can help banks tailor their service strategies to meet diverse customer needs. This study aims to analyze the mediating effect of customer experience in the service quality–customer satisfaction relationship by conducting a comparative study between digital and conventional banking. By identifying the key drivers of customer satisfaction in both banking models, this research provides actionable insights for financial institutions to enhance service quality and optimize customer experiences.

1.2 Literature review:

Service Quality and Customer Satisfaction Service quality is a fundamental concept in marketing and service management, influencing customer satisfaction and loyalty. Parasuraman, Zeithaml, and Berry (1988) developed the SERVQUAL model, identifying five dimensions—tangibility, reliability, responsiveness, assurance, and empathy—as critical determinants of service quality. Several studies have demonstrated a strong positive relationship between service quality and customer satisfaction. For example, Zeithaml, Berry, and Parasuraman (1996) found that higher service quality enhances customer perceptions and increases satisfaction in various service industries, including banking.

In the context of banking, Ladhari (2009) emphasized that responsiveness, assurance, and empathy significantly impact customer satisfaction in both digital and conventional banking models. Similarly, Kaura, Prasad, and Sharma (2015) found that perceived service quality influences trust and satisfaction levels, leading to long-term customer loyalty. Studies by Kassim and Asiah Abdullah (2010) confirmed that service quality factors such as responsiveness, reliability, and security drive customer satisfaction in digital banking services, reinforcing the importance of these attributes in enhancing customer experiences.

Customer Experience as a Mediating Variable Customer experience plays a crucial role in mediating the relationship between service quality and customer satisfaction. Lemon and Verhoef (2016) define customer experience as the cumulative impact of multiple touchpoints during a customer's interaction with a service provider. Research suggests that a positive customer experience enhances the perceived value of service quality, thereby increasing satisfaction levels (Kandampully, Zhang, & Bilgihan, 2015).

In the digital banking sector, Xu et al. (2020) found that customer experience mediates the relationship between service quality and satisfaction by shaping perceptions of convenience, security, and ease of use. Similarly, Pikkarainen et al. (2004) highlighted that the usability and security of online banking platforms significantly influence customer experience, which in turn affects overall satisfaction. In conventional banking, Ali et al. (2021) demonstrated that face-to-face interactions, staff responsiveness, and service personalization enhance customer experience, leading to higher satisfaction levels.

Dabholkar, Shepherd, and Thorpe (2000) further emphasized that customer experience strengthens the perceived value of service quality, reinforcing its impact on satisfaction. This mediation effect suggests that banks must focus not only on improving service quality but also

on enhancing customer experience through seamless interactions, personalized services, and technological innovation.

1.3 Objectives of the study:

- To analyze the relationship between service quality and customer satisfaction in conventional and digital banking, and to determine the strength of this association.
- To examine the role of customer experience as an outcome of service quality and as a precursor to customer satisfaction in both conventional and digital banking contexts.
- To investigate the mediating effect of customer experience on the relationship between service quality and customer satisfaction in conventional and digital banking channels.

1.4 Scope of the Study:

This study investigates the impact of service quality on customer satisfaction in both digital and conventional banking. It focuses on the mediating role of customer experience in shaping this relationship. The research compares how service quality influences satisfaction through experience across both banking models. The findings aim to offer insights for enhancing service strategies in the banking sector.

1.5 Data and Sample

This study collected 428 responses from banking customers across Telangana, India, ensuring a diverse representation of individuals using both conventional and digital banking services. After data cleaning and validation, 400 valid responses were considered for analysis. The data was gathered using a combination of online surveys (60%), face-to-face interviews at bank branches (25%), and telephonic surveys (15%), ensuring inclusivity across different demographics and geographical locations. The survey was conducted over a period of three months (April – June 2024) using a stratified random sampling technique to ensure a balanced representation.

The demographic profile of respondents included individuals from different age groups, income levels, education backgrounds, and geographical locations. The largest group of respondents belonged to the 18–30 years age category (40%), followed by those aged 31–50 years (35%), and 51 years and above (25%). In terms of gender distribution, 55% of the respondents were male and 45% were female. The study also classified respondents based on their educational qualifications, with 30% holding undergraduate degrees, 45% graduates, and 25% postgraduates or above. Regarding income levels, 35% of respondents earned below ₹25,000 per month, 40% had monthly earnings between ₹25,000 - ₹50,000, and 25% earned above ₹50,000.

Geographically, the respondents were well-distributed across urban (50%), semi-urban (30%), and rural areas (20%), ensuring insights from a wide range of banking customers. The sample was equally divided between conventional banking users (50%), who rely on branch-based services, and digital banking users (50%), who primarily engage in mobile and internet banking. This classification enabled a comparative analysis of service quality and its impact on customer experience across both banking models.

The survey questionnaire focused on measuring key service quality dimensions, including reliability, responsiveness, assurance, tangibility, empathy, security, and ease of use, along with customer experience factors such as perceived ease, personalization, emotional satisfaction, and trust in banking services. The data was analyzed using regression analysis to

examine the relationship between service quality and customer experience in both banking formats.

2. MODEL AND HYPOTHESIS

The concepts discussed above provide a base for creating relational models involving service quality, customer satisfaction and customer experience, which depict the causal as well as directional flow that these constructs obey. The Relationships among the principals constructs form three different paths, each of which are discussed in the following sections

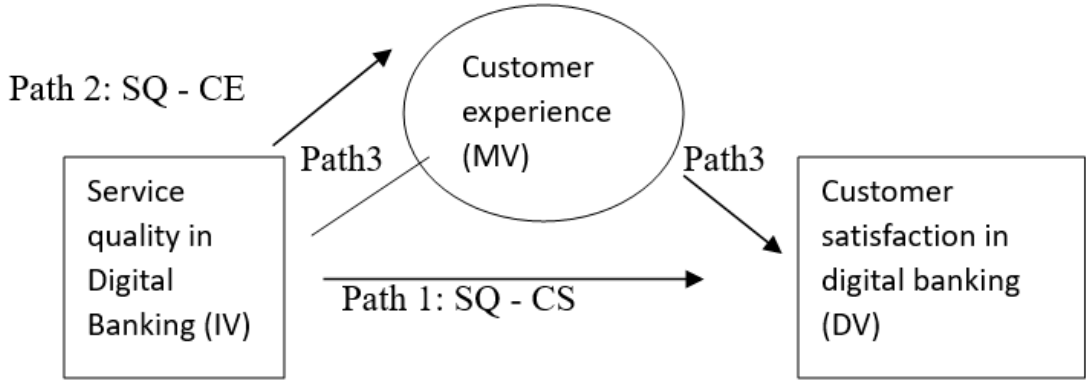
Path 1: The Service Quality impact on Customer Satisfaction in Digital Banking Relationship:

Service Quality in Digital Banking (Independent variable) ⟶ Customer Satisfaction

Path 2: The service quality impact on Customer experience in digital banking relationship

Service Quality in Digital Banking (Independent variable) ⟶ Customer Experience (Mediating variable)

Path 3: the service quality (IV), Customer experience (IV) impact on customer satisfaction in digital banking (DV)



2.1 Results:

- Path 1: A linear regression analysis revealed that service quality significantly influences customer satisfaction in digital banking. The model, with an R^2 value of 0.692, indicates a moderately strong fit, explaining 69.2% of the variation in customer satisfaction. The regression equation—Customer Satisfaction (DB) = 0.6362 + 0.8093 × Service Quality—shows a strong and positive impact (β = 0.8093), confirming service quality as a key predictor.
- Path 2: Regression analysis showed that service quality significantly predicts customer experience, which in turn strongly influences customer satisfaction in digital banking. With an R^2 of 0.652, the model indicates that 65.2% of the variation in satisfaction is explained by customer experience. The regression equation—Customer Satisfaction = 0.6939 + 0.8096 × Customer Experience—reflects a robust positive impact (β = 0.8096), confirming its predictive strength.
- Path 3: A multiple linear regression analysis was conducted with service quality and customer experience as independent variables to predict customer satisfaction in digital banking. The model demonstrated a good fit, explaining 73.3% of the variance in

satisfaction. The resulting equation—Customer Satisfaction = 0.4072 + 0.5073 × Service Quality + 0.3721 × Customer Experience—indicates that both predictors have a strong and statistically significant positive effect on customer satisfaction (β = 0.5073 and β = 0.3721, respectively).

This study examines the impact of service quality on customer satisfaction in conventional banking, with customer experience serving as a mediating variable.

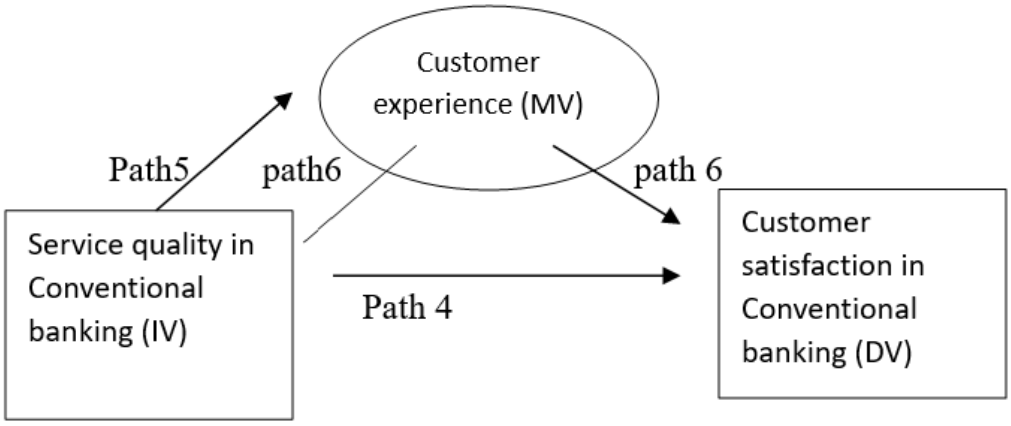
- Path 4: Impact of service quality in conventional banking (independent variable) on customer satisfaction in conventional banking (dependent variable)

  Service Quality in Conventional Banking (Independent variable) ⟶ Customer Satisfaction

- Path 5: The service quality impact on Customer experience in conventional banking relationship

  Service Quality in conventional Banking (Independent variable) ⟶ Customer Experience (Mediating variable)

Path 6: the service quality (IV), Customer experience (IV) impact on customer satisfaction in conventional banking (DV)



2.2 Results:

- Path 4: A linear regression analysis was conducted to assess the impact of service quality on customer satisfaction in conventional banking. The analysis revealed that service quality significantly predicts customer satisfaction, with an R^2 value of 0.717, indicating that 71.7% of the variation in satisfaction is explained by service quality. The regression equation derived is: Customer Satisfaction = 0.7306 + 0.7785 × Service Quality. The relationship is statistically significant (β = 0.7785, $p < 0.001$), highlighting a strong positive effect and confirming the model as a strong predictor of customer satisfaction in conventional banking.
- Path 5: A regression analysis was conducted to assess the impact of service quality on customer experience in conventional banking, with customer experience acting as the mediating variable. The model revealed that service quality significantly predicts customer experience, with an R^2 value of 0.750, indicating that 75.0% of the variation in customer satisfaction is explained by customer experience. The regression equation is: Customer Satisfaction = 0.7152 + 0.8177 × Customer Experience. Customer experience shows a strong positive and statistically significant effect on customer satisfaction (β = 0.8177, p <

0.001), confirming the model as a good predictor with a high explanatory power (R^2 = 0.750).

- Path 6: A multiple linear regression analysis was conducted to evaluate the impact of service quality in conventional banking (independent variable) and customer experience (mediating variable, also independent) on customer satisfaction (dependent variable). The model demonstrated an R-squared value of 0.801, explaining 80.1% of the variance in customer satisfaction, indicating a strong fit. The adjusted R-squared value of 0.800 shows the model remains robust even after adjusting for the number of predictors. The regression equation for customer satisfaction in conventional banking is: Customer Satisfaction = 0.4706 + 0.3770 × Service Quality + 0.4944 × Customer Experience. This model reveals that both service quality and customer experience have significant positive effects on customer satisfaction.

Table 1: Result of simple and Multiple Regression Analysis of Digital Banking

Model (steps in mediating analysis)	Service Quality	Customer satisfaction	R Square
path 1			
DV = Customer satisfaction in digital banking IV = Service quality in digital banking	0.8093	Nil	0.692
path 2			
DV = Customer experience in digital banking IV = Service quality in digital banking	0.8096	Nil	0.652
path 3			
DV = customer satisfaction in digital banking IV(1) = Service quality in digital banking and IV (2) = Customer experience (mediating variable)	0.5073	0.3721	0.733

Table 2: Simple and multiple linear regression analysis of Conventional Banking

Model (steps in mediation analysis)	Service Quality	Customer satisfaction	R Square
path 1			
DV = Customer satisfaction in conventional banking IV = Service quality in conventional banking	0.7785	Nil	0.717
path 2			
DV = Customer experience in conventional banking IV = Service quality in conventional banking	0.8177	Nil	0.75
path 3			
DV = customer satisfaction in conventional banking IV(1) = Service quality in conventional banking and IV (2) = Customer experience (mediating variable)	0.377	0.4944	0.81

2.3 Discussions and implications:

This study examines the impact of service quality and customer experience on customer satisfaction in conventional and digital banking, using multiple regression analysis. In conventional banking, service quality explains 71.7% of customer satisfaction (R^2 = 0.717), while customer experience alone explains 75.0% (R^2 = 0.750). When both factors are combined, they account for 80.1% of customer satisfaction (R^2 = 0.801), with customer experience having a greater effect (β = 0.4944) than service quality (β = 0.3770).

In digital banking, both service quality (β = 0.8093) and customer experience (β = 0.8096) are statistically significant, showing that higher service quality and better customer experience both lead to greater satisfaction. When both are considered, service quality (β = 0.5073) and customer experience (β = 0.3721) remain significant predictors of satisfaction, and the adjusted

R^2 value of 0.732 confirms the model's robustness. The reduced effect of service quality when customer experience is included suggests partial mediation, indicating that customer experience partially mediates the relationship between service quality and customer satisfaction in digital banking.

This study highlights the importance of customer experience as a mediator in the service quality-satisfaction relationship, particularly in conventional banking. It emphasizes that improving service quality dimensions such as responsiveness, reliability, and empathy can enhance customer experience and overall satisfaction. These findings provide valuable insights for bank managers to develop customer-centric strategies and training programs.

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