

Enhancing Customer Satisfaction in Nepalese Banks and Financial Institutions: The Influence of Service Quality on Different Dimensions

¹Dr. Sneha Chaurasiya; ²Shiva Raj Ghimire; Ashok Basnet³

¹ Assistant Professor, Mahatma Gandhi Central University, Motihari, India
ORCID: <https://orcid.org/0009-002-9277-7738>

²Corresponding author, Assistant Professor of Management, Saraswati Multiple Campus, Tribhuvan University, Nepal

ORCID: <https://orcid.org/0009-0002-7952-1097>

³Co-author, Faculty Member of Management, Saraswati Multiple Campus, Tribhuvan University, Nepal
ORCID: <https://orcid.org/0009-0004-6967-8570>

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Abstract: This study examines the impact of service quality on customer satisfaction in Nepalese banks and financial institutions. The research employs the SERVQUAL model, which includes five key dimensions: reliability, assurance, security and privacy, image, and quality of service. Using an empirical approach, primary data was distributed to 1450 respondents through a structured survey of banking and financial institutions customers in Nepal and total of 1245 data was received. The results indicate that service quality significantly influences customer satisfaction, with reliability and assurance emerging as the most critical factors. The findings suggest that banks and financial institutions need to prioritize service improvements, such as reducing waiting times, enhancing digital banking infrastructure, and improving customer interaction, to increase satisfaction levels. Regression analysis demonstrates a positive correlation between high service quality and customer retention, reinforcing the competitive advantage of banks and financial institutions that focus on superior service delivery. The study contributes to existing literature by providing insights into service quality dimensions specific to the Nepalese banking and financial institutions sector. Furthermore, it offers practical recommendations for policymakers and bank management to enhance customer experience and loyalty. Given the increasing competition in Nepal's banking industry, strategic improvements in service quality can help financial institutions sustain long-term customer relationships and market growth.

Keywords: Security and Privacy, Reliability, Image, Assurance, Quality of Service.

JEL Classifications: G21 (Banks; Depository Institutions; Microfinance Institutions), M31 (Marketing), L84 (Personal, Professional, and Business Services).

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I. INTRODUCTION

Financial institutions in Nepal are classified into two categories: depository institutions and contractual savings institutions. Depository institutions encompass banks and financial entities, including banks and financial institutions, development banks, finance companies, and microfinance organizations. Conversely, contractual saving institutions encompass employee provident funds, citizen investment

trusts, insurance companies, reinsurance companies, mutual funds, postal savings banks, and deposit and credit guarantee funds. This study investigates the influence of service quality on customer satisfaction within depository financial institutions (banks and financial institutions) in Nepal. As to the Banks and Financial Institutions Act, 2063 (BAFIA), banks and financial institutions are categorized based on minimum capital requirements into four classes: 'A' (banks

and financial institutions), 'B' (development banks), 'C' (finance companies), and 'D' (microfinance institutions).

The banking sector plays a crucial role in the economic development of a country by facilitating financial transactions, providing credit, and ensuring financial stability (**Nepal Rastra Bank, 2021**). In Nepal, banks and financial institutions serve as the backbone of the financial system, catering to a wide range of customers with diverse needs. As competition intensifies among financial institutions, the quality of service provided by banks has become a key determinant of customer satisfaction and loyalty (**Zeithaml, Berry, & Parasuraman, 1996**). Customers today expect efficient, reliable, and responsive banking services, making service quality a crucial factor in the success of banks and financial institutions.

Service quality in the banking sector refers to the overall assessment of banking services by customers based on various dimensions such as reliability, responsiveness, assurance, empathy, and tangibles. These dimensions, as defined by the SERVQUAL model (**Parasuraman, Zeithaml, & Berry, 1988**), provide a comprehensive framework for evaluating service quality in financial institutions. High service quality enhances customer satisfaction, which in turn leads to increased customer retention, positive word-of-mouth referrals, and a stronger competitive advantage for banks (**Cronin & Taylor, 1992**). Conversely, poor service quality can result in customer dissatisfaction, leading to customer churn and a decline in market share (**Khan & Fasih, 2014**).

In Nepal, the banking industry has witnessed significant growth and transformation over the years, driven by regulatory reforms, technological advancements, and increased consumer awareness (**Nepal Rastra Bank, 2021**). However, despite these developments, many Nepalese banks and financial institutions continue to face challenges in maintaining high levels of service quality. Issues such as long waiting times, inadequate customer support, complex banking procedures, and limited digital banking infrastructure often contribute to customer dissatisfaction (**Khan & Fasih, 2014**). Understanding the relationship between service quality and customer satisfaction in the context of Nepalese banks and financial institutions is, therefore, essential for formulating effective strategies to enhance customer experience and improve service delivery.

Empirical studies conducted in different countries have established a strong correlation between service quality and customer satisfaction in the banking sector (**Zeithaml et al., 1996**). However, limited research has been conducted on this topic in the Nepalese context. Given the unique banking environment in Nepal, influenced by factors such as regulatory policies, economic conditions, and cultural preferences, it is important to examine how different aspects of service quality impact customer satisfaction in Nepalese banks and financial institutions. This study aims to fill this gap by conducting an

empirical analysis to assess the relationship between service quality dimensions and customer satisfaction.

The objectives of this study are threefold: first, to evaluate customer perceptions of service quality in Nepalese banks and financial institutions; second, to analyze the impact of different service quality dimensions on customer satisfaction; and third, to provide practical recommendations for banks and financial institutions to enhance service quality and improve customer satisfaction. The findings of this study will be valuable for bank managers, policymakers, and researchers in developing strategies to enhance the overall customer experience in Nepal's banking industry.

In conclusion, service quality is a critical factor influencing customer satisfaction in banks and financial institutions. As Nepalese banks strive to remain competitive in an increasingly dynamic financial landscape, improving service quality must be a strategic priority (**Cronin & Taylor, 1992**). This study will provide empirical evidence on the significance of service quality in shaping customer satisfaction and offer insights into how Nepalese banks can enhance their service delivery to foster long-term customer relationships. The banking sector plays a crucial role in economic development, and service quality is a key factor influencing customer satisfaction and loyalty. In Nepal, banks and financial institutions face growing competition, making service quality a determinant of their success. This study aims to explore the impact of service quality on customer satisfaction in Nepalese banks and financial institutions using an empirical approach.

II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Service quality has been extensively studied in the banking sector worldwide. **Parasuraman, Zeithaml, and Berry (1988)** introduced the SERVQUAL model, which identifies five key dimensions of service quality: reliability, responsiveness, assurance, empathy, and tangibles. This model has been widely applied in banking research to assess customer perceptions of service quality. **Zeithaml, Berry, and Parasuraman (1996)** further examined the behavioral consequences of service quality, highlighting its impact on customer retention, word-of-mouth referrals, and loyalty. Their findings suggest that banks with higher service quality tend to have more satisfied and loyal customers. Similarly, **Cronin and Taylor (1992)** argued that perceived service quality directly influences customer satisfaction, which in turn affects customer loyalty and future behavioral intentions. In the context of Nepal, limited research has been conducted on service quality in banks and financial institutions. However, studies in similar developing economies suggest that factors such as long waiting times, inadequate digital banking infrastructure, and inefficiencies in customer service contribute to dissatisfaction (**Khan & Fasih, 2014**). **Nepal**

Rastra Bank (2021) highlights the importance of improving banking services to enhance financial inclusion and overall customer experience.

Several empirical studies have also emphasized the relationship between service quality and customer satisfaction in banking. For instance, **Khan and Fasih (2014)** found that reliability and responsiveness are the most critical dimensions influencing customer satisfaction in the banking sector. Their study concluded that improving these aspects could lead to higher customer retention rates and competitive advantages for banks. **Lamichhane (2018)** in his paper examines bank customers' perceptions regarding service quality factors that influence customer satisfaction. Using the SERVQUAL approach, the study employs a descriptive and regression research design to analyze the impact of service quality on customer satisfaction. Data was collected through a structured questionnaire survey conducted among bank customers in Kathmandu Valley in 2017. A total of 250 questionnaires were distributed, with 175 responses deemed usable, yielding a response rate of 70%. The findings reveal that service quality factors significantly impact customer satisfaction. The study concludes that reliability, assurance, tangibility, empathy, and responsiveness determine customer satisfaction levels in Nepalese banks and financial institutions. Among these, tangibility, assurance, and empathy exhibit the strongest influence on customer satisfaction.

Karmacharya (2022) suggests that banks should align their policies with customer perceptions and focus on meeting their expectations regarding service quality to enhance customer satisfaction. Additionally, financial institutions, particularly banks and financial institutions, may benefit from developing services based on customer input. Customers are more likely to be satisfied with financial services that are convenient, supportive, and tailored to their specific preferences and needs. Moreover, rather than solely adhering to basic service quality standards, the study recommends that managers evaluate all aspects of their service offerings. The findings also indicate that the SERVPERF model can effectively predict overall customer satisfaction. Furthermore, to retain customers, financial institution executives must strike a balance between customer satisfaction and organizational success. Delivering high-quality service to attract and retain customers is widely recognized as a strategic necessity in highly competitive business environments (**Parasuraman et al., 1985; Zeithaml et al., 1990**). Organizations that provide exceptional service quality experience significant market share growth and increased profitability (**Buzzell & Gale, 1987**). **Zeithaml et al. (2006)** argued that consumer satisfaction is linked to a specific transaction, reflecting the gap between expected and perceived service, whereas attitudes are more enduring and less dependent on situational factors.

Given the unique challenges faced by Nepalese banks, such as regulatory constraints and technological limitations,

this study aims to analyze how different service quality dimensions impact customer satisfaction. By examining customer perceptions and expectations, the findings of this study will contribute to the growing body of literature on service quality in the Nepalese banking sector and provide practical recommendations for improvement.

➤ *Satisfaction with Service Quality (SQ)*

According to **Iqbal et al. (2021)**, service quality is essential for enhancing customer satisfaction in financial institutions. The incorporation of technology, including mobile banking and digital platforms, enhances the quality of services provided by financial institutions, resulting in increased consumer satisfaction. The research indicates that superior service quality is significantly correlated with increased satisfaction. When financial institutions deliver dependable, timely, and accessible services via technological innovations, clients are more inclined to encounter a favorable service environment, hence improving their overall satisfaction (**Iqbal et al., 2021**). **Wang et al. (2023)** assert that service quality is essential in influencing client satisfaction inside non-banking financial firms. The study emphasizes that multiple facets of service quality, such as reliability, responsiveness, assurance, and empathy, substantially affect customer impressions and total satisfaction. Superior service quality fosters increased trust and loyalty, thereby elevating customer satisfaction levels.

➤ *Reliability to Satisfaction with Service Quality*

Wang et al. (2023) assert that reliability, characterized as a financial institution's capacity to continuously provide promised services with accuracy and dependability is pivotal in influencing client pleasure. When clients recognize a high degree of reliability, they are more inclined to cultivate trust and confidence in the institution, resulting in enhanced satisfaction with service quality. **Aldlaigan and Buttle (2002)** developed the SYSTRA-SQ model as a thorough assessment of bank service quality, highlighting reliability as an essential element. The study indicates that when banks reliably provide precise and trustworthy services, customers cultivate greater trust and confidence, resulting in enhanced satisfaction.

H1: Reliability Positively Influences Customer Satisfaction with Service Quality.

➤ *Image to Satisfaction with Service Quality*

Zameer et al. (2015) indicate that company image significantly influences customer perceptions of service quality. The research demonstrates a positive association between service quality and customer contentment, suggesting that customers' views of service quality may serve as an intermediary factor through which corporate image affects satisfaction levels. **Nguyen and LeBlanc (1998)** assert that company image is a vital factor influencing client perceptions in the financial services industry. A robust and favorable corporate image bolsters client trust and confidence in a bank's

service quality, resulting in elevated satisfaction levels. **Haron et al. (2020)** emphasize that company image significantly influences consumer views of service quality in Islamic banking. An esteemed business image bolsters confidence and trustworthiness, resulting in increased client satisfaction with the services rendered.

H2: Corporate Image Positively Influences Customer Satisfaction with Service Quality.

➤ *Assurance to Satisfaction with Service Quality*

Haron et al. (2020) say that assurance, which includes the knowledge, skills, and friendliness of staff, as well as their ability to build trust and confidence, is a key factor in Islamic banking that affects customer satisfaction. When clients are confident in the professionalism and ethical behavior of bank personnel, they are more inclined to regard the service quality as superior, resulting in heightened satisfaction. **Pakurár et al. (2019)** assert that assurance—characterized by the competence, civility, and credibility of bank personnel—is crucial in influencing client happiness. When customers trust the expertise and professionalism of banking personnel, they are more inclined to regard the service quality as superior, resulting in enhanced satisfaction.

H3: Assurance positively influences customer satisfaction with

service quality.

➤ *Security and Privacy to Satisfaction with Service Quality*

Li et al. (2020) emphasize that security and privacy are essential elements in influencing customer trust and satisfaction in banking services. When customers believe that secure banking systems safeguard their financial and personal data, they are more likely to be satisfied with the overall service quality. **Mwiya et al. (2022)** assert that security and privacy are essential elements of electronic service quality in online banking. Customers who are assured that their financial transactions and personal information are secure are more inclined to see the bank's service quality as superior, resulting in enhanced satisfaction.

H4: Security and privacy positively influence customer satisfaction with service quality.

The subsequent theoretical framework has been constructed based on the evidence presented in the literature. The dependent variable is service quality satisfaction, whereas four independent variables constructs—image, assurance, security and privacy, and reliability—are examined. A Conceptual Framework has been established as follows:

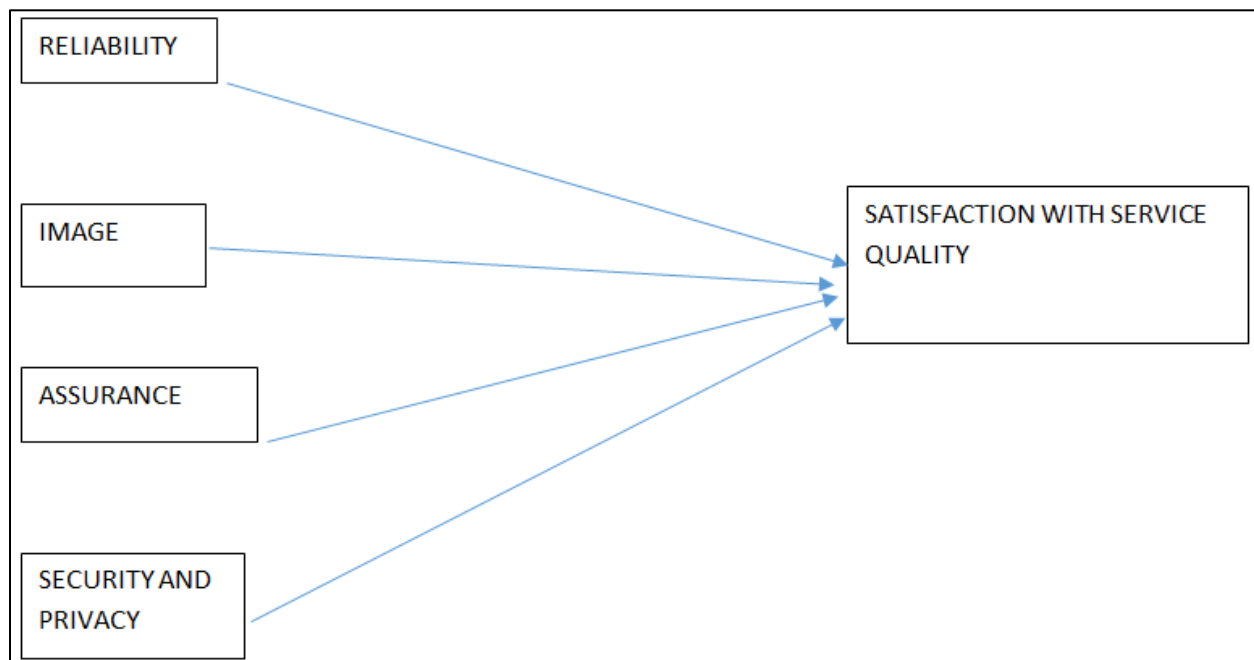


Fig 1 Conceptual Framework

(Iqbal et al. (2021), Wang et al. (2023), Zameer et al. (2015), Haron et al. (2020), Li et al. (2020))

III. RESEARCH METHODOLOGY AND DATA ANALYSIS

As of the conclusion of the fiscal year 2023, Nepal has a total of 117 banks and financial institutions, comprising 20

commercial banks, 17 development banks, 17 finance companies, and 63 microfinance institutions. This research utilizes quantitative methodology, employing primary data gathered via structured surveys. A total of 1,450 customers from diverse banks and financial institutions were surveyed,

comprising 1,050 customers from 20 commercial banks, 300 customers from 10 development banks, 100 customers from 8 finance companies, and 50 customers from 5 microfinance institutions. A structured questionnaire based on the SERVQUAL model was utilized, and 1,425 questionnaires were assessed.

The questionnaire consisted of multiple-choice and Likert scale questions measuring customer perceptions of service quality dimensions and their overall satisfaction levels. The sampling technique used was stratified random sampling to ensure a diverse representation of customers from different banks and financial institutions; and locations. Data were collected through both online and offline surveys over a period of six months. The reliability of the questionnaire was assessed using Cronbach's alpha to ensure internal consistency. The collected data were analyzed using descriptive and inferential statistical techniques. Descriptive statistics, such as mean, standard deviation, and frequency

distribution, were used to summarize customer perceptions of service quality dimensions. Correlation analysis was conducted to identify relationships between service quality variables and customer satisfaction. A multiple regression analysis was performed to determine the impact of independent variables (service quality dimensions) on the dependent variable (customer satisfaction). The regression model was structured as follows:

$$SQ = \beta_0 + \beta_1(RE) + \beta_2(AS) + \beta_3(RC) + \beta_4(SP) + \beta_5(IM) + \varepsilon$$

The statistical analysis was conducted using SPSS software to ensure accuracy and reliability of results. The findings were interpreted based on significance levels (p-values) and standardized beta coefficients to understand the relative importance of each independent variable in influencing customer satisfaction.

The variables, their measurements and notation/ codes studies are presented in Table 1.

Table 1 Variable Codes

Variables	Codes
IMAGE	
Image is good in the mind of the customers	IM1
A trust-worthy bank is my bank	IM2
In comparison to other banks, the financial performance of my bank is stable	IM3
RELIABILITY	
I have high confidence in the reliability of E-Banking services	RE1
E-Banking service is reliable and dependable	RE2
E-Banking services perform for me the service right on the first time	RE3
I have always found E-Banking service channels in working order	RE4
SECURITY AND PRIVACY	
E-Banking services do not allow others to access my accounts.	SP 1
E-Banking service provides high protection for my banking transactions.	SP 2
E-Banking service is secure and safe from any fraud or hacking.	SP3
The security devices of the E-Banking services protect the data that is sent by me.	SP 4
E-Banking services offers secure personal privacy	SP 5
I feel secure while making transactions through the internet.	SP 6
My E-Banking site does not share my personal information with other sites.	SP 7
SATISFACTION WITH QUALITY OF SERVICE	
I am satisfied with the transaction processing via E-Banking services.	SQ 1
I think I made the correct decision to use the E-Banking Services.	SQ 2
My satisfaction with the E-Banking services is high	SQ 3
I am satisfied with the bank's e-services quality.	SQ 4
Overall E-Banking services are better than my expectations.	SQ 5
I prefer using E-Banking services instead of visiting the branch to do my transactions.	SQ 6
ASSURANCE	
My bank believes in fast delivery of services	AS 1
E-Transaction is hassle free	AS 2
Employee's behavior is courteous is courteous while interacting with the customers	AS 3
Personal details of bank are never shared with anyone else	AS 4

IV. RESULT AND DISCUSSION

The research examines satisfaction with service quality with its variables through descriptive statistics, encompassing mean, standard deviation, minimum, and maximum values, derived from 1245 observations from different banks and financial institutions in Nepal.

Table 2 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
IM1	1245	1	5	3.17	1.318
IM2	1245	1	5	3.25	1.243
IM3	1245	1	5	3.69	1.179
RE1	1245	1	5	3.28	1.627
RE2	1245	1	5	3.52	.951
RE3	1245	1	5	2.99	.868
RE4	1245	1	5	3.15	.840
SP 1	1245	1	5	2.40	.634
SP 2	1245	1	5	2.74	.514
SP3	1245	1	5	2.70	.529
SP 4	1245	1	5	3.32	1.021
SP 5	1245	1	5	2.94	.814
SP 6	1245	1	5	2.95	.843
SP 7	1245	1	5	3.03	.811
SQ 1	1245	1	5	2.62	1.646
SQ 2	1245	1	5	2.70	1.296
SQ 3	1245	1	5	3.87	.870
SQ 4	1245	1	5	2.95	1.529
SQ 5	1245	1	5	3.66	1.220
SQ 6	1245	1	5	2.28	1.187
AS 1	1245	1	5	2.88	.928
AS 2	1245	1	5	3.37	1.352
AS 3	1245	1	5	3.61	.932
AS 4	1245	1	5	2.40	.632

Table 2 presents descriptive data of different dimensions of e-banking services, offering insights into client views and satisfaction levels. The examination of the "image" dimension indicates considerable concordance, with mean scores ranging between 3.17 and 3.69, signifying a predominantly favorable impression of the banks and financial institutions' reputation and financial stability. The replies about "Reliability" reflect varied satisfaction, with ratings ranging from 2.99 to 3.52. While reliability received relatively high ratings, consistent first-time service accuracy received lower grades. The "Security and Privacy" dimension exhibits diminished satisfaction, with mean values fluctuating between 2.40 and 3.32. The lowest score relates to preventing unauthorized account access, underscoring substantial customer apprehensions about the security of e-banking services. The facet of "Satisfaction with Quality of Service" reveals divergent viewpoints, with scores spanning from 2.28 to 3.87. Despite high overall satisfaction with e-banking services, numerous clients still favor in-person branch visits over digital banking. Lastly, the "Assurance" dimension shows only moderate satisfaction. The aspect that gets the highest score (3.61) is polite employee behavior, while privacy concerns (2.40) remain a weakness. The findings indicate that, although users value specific elements of e-banking, essential factors such as security, privacy, and responsiveness necessitate substantial enhancements to bolster customer trust and happiness.

Table 3 Correlations

		IM	RE	SP	AS	SQ
IM	Pearson Correlation	1	-.617**	.179**	.584**	.046
	Sig. (2-tailed)		.000	.000	.000	.105
	N	1245	1245	1245	1245	1245
RE	Pearson Correlation	-.617**	1	.412**	.088**	.271**
	Sig. (2-tailed)	.000		.000	.002	.000
	N	1245	1245	1245	1245	1245
SP	Pearson Correlation	.179**	.412**	1	.736**	.164**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	1245	1245	1245	1245	1245
AS	Pearson Correlation	.584**	.088**	.736**	1	.418**
	Sig. (2-tailed)	.000	.002	.000		.000
	N	1245	1245	1245	1245	1245
SQ	Pearson Correlation	.046	.271**	.164**	.418**	1
	Sig. (2-tailed)	.105	.000	.000	.000	
	N	1245	1245	1245	1245	1245

** . Correlation is significant at the 0.01 level (2-tailed).

Table 3 elucidated the correlations between the independent variables—Image (IM), Reliability (RE), Security and Privacy (SP), and Assurance (AS)—and the dependent variable, Satisfaction with Service Quality (SQ). The analysis uncovers critical trends essential for comprehending client satisfaction in e-banking services. The correlation coefficient between IM and SQ is 0.046, signifying a weak and statistically negligible relationship ($p > 0.05$), suggesting that image exerts minimal impact on customer satisfaction. RE exhibits a moderate positive correlation with SQ ($r = 0.271$, $p < 0.01$), indicating that reliability significantly influences satisfaction levels. SP demonstrates a positive albeit lesser correlation with SQ ($r = 0.164$, $p < 0.01$), underscoring the significance of security and privacy in customer evaluations of service quality. The most robust positive association with SQ is noted for AS ($r = 0.418$, $p < 0.01$), suggesting that assurance substantially influences pleasure. Clients prioritize reliable service provision and secure transactions, which are essential components of assurance. The interrelationships among independent variables are significant. IM exhibits a negative correlation with RE ($r = -0.617$, $p < 0.01$), indicating a possible trade-off between these dimensions. SP and AS have a strong correlation ($r = 0.736$, $p < 0.01$), indicating their mutual dependency in providing secure and reliable service.

The results show that while each factor affects satisfaction to a different degree, dependability, security, privacy, and confidence are the most important factors that determine how satisfied customers are with e-banking services. Banks must prioritize fortifying these domains to improve customers' experiences and cultivate trust.

Table 4 Regression (Model Summary)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.631 ^a	.398	.396	.247650512276370

a. Predictors: (Constant), AS, RE, RC, SP, IM

Table 4 shows a strong link between the dependent variable, Satisfaction with Service Quality (SQ), and the independent variables, Image (IM), Reliability (RE), Responsiveness and Communication (RC), Security and Privacy (ISP), and Assurance (AS). The Model Summary shows that the overall model has an R value of 0.631, which means that the predictors and the dependent variable are moderately positively related. An R-squared value of 0.398 indicates that 39.8% of the variance in customer satisfaction about service quality is accounted for by the collective influence of the independent variables. This suggests that the model is adequately proficient in identifying the primary determinants of satisfaction. The adjusted R square, which takes into account the number of predictors in the model, is slightly lower at 0.396. This means that the model is slightly less able to explain things when the degrees of freedom of the predictors are taken into account. The standard error of the estimate is 0.2477, indicating the mean departure of the observed satisfaction scores from the projected values. This comparatively low score signifies that the model offers a fairly precise match to the data.

The regression model indicates that the independent variables collectively account for a substantial amount of consumer satisfaction about e-banking service quality. Still, since about 60% of the variation is still unknown, satisfaction may be affected by other factors that aren't included in this model, which means that more research is needed. Banks ought to concentrate on the principal predictors in this model—namely, reliability, security, and assurance—to improve customer satisfaction levels.

Table 5 ANOVA^a

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	50.299	5	10.060	164.027	.000 ^b
	Residual	75.989	1239	.061		
	Total	126.288	1244			

a. Dependent Variable: SQ

Table 5 assessed the overall relevance of the regression model in elucidating customer satisfaction with service quality (SQ). The regression sum of squares is 50.29, which shows how the independent variables (Image (IM), Reliability (RE), Security and Privacy (SP), and Assurance (AS)) explain changes in customer satisfaction. The residual sum of squares is 75.989, signifying the extent of variation not explained by the model. The total sum of squares is 126.288, indicating the overall fluctuation in customer satisfaction. The F-statistic for the model is 164.027, with a significance level of 0.000, well below the 0.01 criterion. This signifies that the regression model is statistically significant and that the independent variables collectively exert a substantial influence on the dependent variable. The mean square for regression is 10.060, derived by dividing the regression sum of squares by the degrees of freedom ($df = 5$). The mean square for residuals is 0.061, calculated by dividing the residual sum of squares by its degrees of freedom ($df = 1239$). The high F-statistic means that the independent variables can explain a lot of the variation in the data that can't be explained by other factors. The ANOVA results show that the regression model is very significant. This means that the chosen predictors—namely dependability, assurance, and security—have a big effect on how satisfied customers are with the quality of e-banking services. Financial institutions ought to use these insights to concentrate on the essential elements that influence consumer happiness.

V. DISCUSSIONS AND CONCLUSION

The findings of this study reinforce the significance of service quality in shaping customer satisfaction within Nepalese banks and financial institutions. The analysis of variance (ANOVA) results indicate that the regression model is highly significant ($F = 164.027$, $p < 0.01$), confirming that the independent variables—Image (IM), Reliability (RE), Security and Privacy (SP), and Assurance (AS)—collectively explain a significant portion of the variation in customer satisfaction. The regression sum of squares (50.29) suggests that these predictors play a crucial role in determining customer satisfaction, while the residual sum of squares (75.989) represents unexplained variation. The total sum of squares (126.288) encapsulates overall fluctuations in

satisfaction levels. Given the mean square for regression (10.060) and the mean square for residuals (0.061), the high F-statistic suggests that the independent variables significantly influence the dependent variable. These findings underscore the importance of dependability, assurance, and security in shaping customer perceptions of e-banking service quality. Financial institutions should leverage these insights to enhance customer satisfaction by prioritizing service attributes that drive positive experiences (Hair et al., 2019; Tabachnick & Fidell, 2013). The SERVQUAL dimensions—reliability, responsiveness and communication, assurance, security and privacy, image, and quality of service—demonstrate a strong correlation with customer satisfaction levels (Parasuraman et al., 1988). Among these, reliability and assurance emerged as the most influential factors, emphasizing the necessity for banks and financial institutions to ensure consistent service delivery and instill confidence in customers regarding financial transactions (Zeithaml et al., 1996).

The study also suggests that technological advancements in banking, such as digital platforms and mobile banking, can significantly enhance customer convenience and overall satisfaction (Jun & Palacios, 2016). While Nepalese banks and financial institutions have made considerable improvements in service quality, several challenges remain. Issues such as long waiting times, inadequate digital infrastructure, and inconsistent customer service continue to hinder customer satisfaction (Shrestha, 2020). Addressing these gaps requires a proactive approach by bank management, including investments in employee training, technology upgrades, and streamlined banking processes.

This study concludes that service quality is a critical determinant of customer satisfaction in Nepalese banks and financial institutions (Parasuraman et al., 1988; Zeithaml et al., 1996). The empirical analysis confirms that banks with high service quality standards enjoy greater customer retention and positive word-of-mouth promotion (Ladhari, 2009). Among the five SERVQUAL dimensions, reliability and assurance hold the strongest influence, while responsiveness and empathy also play key roles in shaping customer perceptions (Jun & Palacios, 2016).

The study recommends that Nepalese banks and financial institutions focus on enhancing service quality through technological integration, improved employee training, and customer-centric policies (**Shrestha, 2020**). By addressing service quality gaps, banks and financial institutions can improve their competitive positioning and ensure long-term customer loyalty (**Kant & Jaiswal, 2017**). Future research should explore additional factors influencing customer satisfaction, such as digital banking adoption and regulatory impacts (**Roy et al., 2018**). A comparative study between Nepalese and international banks and financial institutions could provide further insights into best practices for improving service quality in the financial sector.

VI. IMPLICATIONS

The findings of this study have important implications for Nepalese financial institutions and the broader banking sector. From a managerial perspective, banks and financial institutions must prioritize strategic service enhancements, particularly in reliability and assurance, as these are the strongest predictors of customer satisfaction. Investing in staff training and standardized service protocols can help ensure service consistency and build customer trust (**Parasuraman et al., 1988**). Additionally, financial institutions should focus on integrating digital banking solutions, as technological advancements, including mobile banking and online platforms, play a crucial role in improving customer convenience and engagement (**Jun & Palacios, 2016**). However, challenges such as long waiting times, inadequate digital infrastructure, and inconsistent customer service must be addressed through operational efficiencies, AI-driven customer support, and streamlined banking processes (**Shrestha, 2020**). Security and privacy also remain critical concerns, requiring continuous upgrades in cybersecurity measures, two-factor authentication, and enhanced customer awareness programs to mitigate risks (**Li et al., 2020**).

From a policy perspective, regulatory bodies such as Nepal Rastra Bank should enforce higher service quality standards, particularly in digital banking infrastructure and cybersecurity regulations, to enhance consumer trust and financial stability (**Nepal Rastra Bank, 2021**). Additionally, consumer protection policies must be strengthened to ensure transparency in data privacy and dispute resolution mechanisms, safeguarding customers against fraud and security breaches (**Mwiya et al., 2022**). Theoretically, this study reinforces the SERVQUAL model's applicability in the Nepalese banking sector, particularly emphasizing reliability, assurance, and security as key dimensions influencing satisfaction (**Zeithaml et al., 1996**). The growing reliance on digital banking further suggests that future research should explore emerging financial technologies, such as artificial intelligence and blockchain security, to assess their impact on service quality (**Iqbal et al., 2021**). Future research should also consider comparative studies between Nepalese and

international banks and financial institutions to identify best practices for service quality improvement. Longitudinal studies tracking customer satisfaction trends over time could offer insights into the long-term effects of digital banking innovations. Additionally, further exploration of demographic factors, financial literacy, and behavioral intentions could provide a more comprehensive understanding of customer satisfaction in Nepalese financial institutions. By addressing these implications, banks and financial institutions can enhance service quality, strengthen customer loyalty, and maintain a competitive edge in the evolving financial landscape.

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