

Assessing the Role of Customer Service in Enhancing the Retail Banking Operations

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Abstract

Against the backdrop of the active environment of retail banking, where the trend towards digitization is becoming increasingly high, and the expectations of customers are transforming significantly, the importance of customer service is studied in the given investigation. The primary aim is to evaluate to which extent responsiveness, customer satisfaction, operational efficiency, and perceived value as four service components play a role in customer loyalty and longstanding retention within the retail banking industry. The study has used Structural Equation Modelling to establish relationships by way of a 5-point likert scale questionnaire and industry statistics. The results showed that service responsiveness and customer satisfaction are major factors that determine loyalty compared to operational efficiency that has a much lower impact on loyalty. The perceived value also has its role. The model fits very well although suggestions are made to have better looking overall benefit of to the customer measuring tools. The study has recommends customer satisfaction, responsive service, and perception of value as the priorities of banks in enhancing the long-term relationship with customers and suggests that further examination should be done into the dimension of digital service and customized service.

Keywords: *Service Responsiveness, Customer Satisfaction, Retail Banking, Structural Equation Modelling, Customer Loyalty, Digital Banking*

Introduction

The overall customer experience and the choice of operational efficiency in the dynamic retail banking status is now determined greatly by the customer service. Digital technologies are extensively used, and therefore, banks have fast become digitized, whereby they operate digital platforms, as opposed to the physical branch-based model, altering the service delivery approach of banks to their customers. This brings terrific benefit in speed, convenience, and accessibility but it also generates issues with respect to maintaining personal touch and customer confidence. This paper tries to understand the role of service strategies in terms of modifying the internal process and the performance of retail banks through a critical analysis of the customer service within both the digital and traditional models of banking.

In addition to the operating factors, customer service plays an important role in long-term relations with customers, customer satisfaction and retention. As banks invest more in the upgrading of service

quality, an analysis to deeper examine the trade-off between the benefit and cost is required. The study had intended to find out the effects of service improvement on customer loyalty and satisfaction and also the cost of doing so to the banks. Through the discussion of the different methods of approaching services and the evaluation of their effects, the paper has tried to provide some kind of information on how to design the best forms of services which are customer focused, and the best ways of doing retail banking successfully.

Literature Review

The literature review highlights the dynamism of customer service in retail banking and how it influences the operation performance, loyalty and satisfaction. The study by Hamzah et al. (2017) stressed the importance of reliability and empathy as the dimensions of service quality that have greatly influenced customer perceptions, which has a direct implication on the general banking experiences. A presentation by Nambiar et al. (2019) depicted that customer service quality determines the level of loyalty, in addition to backing the strategic value of customer-oriented activities. Similarly, Rupal & Singh (2023) was able to determine that the aspects of providing services, such as personalization, responsibility, and accessibility, both real and virtual, have a beneficial effect on satisfying and maintaining customers.

The trend of digital banking has been mentioned quite sufficiently, as Omarini (2022) and Mittal et al., (2023) observe how artificial intelligence and mobile platforms are influential spheres of customer service maximization. However, the danger of digital privacy and regulatory loop holes identified by Quinio & Criddle (2024) and Yusuf & Bala (2021) meant there was the need to have secure transparent systems in place to build customer trust. Al Khoury et al. (2023) also introduced the aspect of emotional intelligence of the frontline banking employees in building customer trust and long-term customer relations especially in service-dominant use cases. Biswas et al. (2022) supplemented that a good bank reputation boosts the result of customer satisfaction activities. To gain a more targeted approach to retaining valuable clients, Cowan et al. (2023) came up with customer lifetime value (CLV) models. Mason et al. (2022) continued to describe the ways by which human and digital touch points enhanced more rounded and immersive customer experiences. Furthermore, Nagamani & Mathur (2024) linked, on the one hand, the promptness of service delivery and the humane attitude and, on the other hand, the increased level of customer loyalty, therefore, remaining relevant even in the technologically sophisticated world.

Objective

- To analyse the impact of customer service on operational efficiency in retail banking, with a focus on digital vs. traditional banking models.
- To evaluate the role of customer service in customer retention and satisfaction while assessing the cost-benefit trade-off of service improvements in retail banking.

Methodology

This paper employed quantitative approach to study how customer service influences satisfaction and retention of the residents of Bangalore. A structured questionnaire (5-point Likert scale) was used to generate the data out of which 316 valid responses were calculated using Yamane formula. The conveniences sampling was employed. The analysis was performed using descriptive statistics, Structural Equation Modelling (SEM) with SmartPLS 4 to study the links between the quality of service, satisfaction, and retention. Ethics were adhered to. The limitation is self reported data, cross-sectional design and geographical location of Bangalore.

Data Analysis and Findings

Descriptive Statistics

The data mainly received are analyzed using descriptive statistics and interpretation based on what they think on different issues revolving around service offered to the customers and its impact on customer satisfaction, loyalty, and retention in banking sector. The answers were placed on a 5-scale Likert scale, and other Yes/No questions were made to give special insight.

Table 1 Descriptive Statistics Results

| Construct | Statement | Mean | Std. Dev | Min | Max | Count If (Yes) | Count If (No) | Count If % (yes) | Count If% (No) |
|----------------------------|--|------|----------|-----|-----|----------------|---------------|------------------|----------------|
| Customer Support Frequency | “How frequently do you require customer support from your bank?” | 2.75 | 0.75 | 1 | 4 | | | | |
| Service Responsiveness | “How would you rate the efficiency of the bank’s customer service?” | 3.98 | 0.87 | 1 | 5 | | | | |
| Service Responsiveness | “Have you ever faced delays in getting your banking issues resolved? “ | 4.17 | 0.89 | 1 | 5 | | | | |
| Operational Efficiency | “Have you noticed any change in service speed after your bank introduced digital service options (e.g., mobile apps, chatbots)?” | 4.32 | 1.21 | 1 | 5 | | | | |
| Operational Efficiency | “Do you feel that automation (AI/chatbots) has reduced the need to visit branches? ” | 4 | 1.15 | 1 | 5 | | | | |
| Customer Satisfaction | “How satisfied are you with your banks overall customer service? “ | 4.35 | 0.8 | 1 | 5 | | | | |
| Customer retention | “Have you ever switched banks due to poor customer service? “ | | | | | 220 | 96 | 69.62 | 30.38 |

| | | | | | | | | | |
|--------------------------------|---|------|------|---|---|-----|-----|-------|-------|
| Customer Loyalty | “Do you believe good customer service increases your trust and loyalty toward a bank?” | 4.45 | 0.92 | 1 | 5 | | | | |
| Customer Loyalty | “How likely are you to recommend your bank to others based on your customer service experience? “ | 4.07 | 1.08 | 1 | 5 | | | | |
| Customer Experience | “Do you feel valued as a customer by your bank?” | 3.37 | 0.71 | 1 | 4 | | | | |
| Service Influence on Retention | “In your opinion, how important is customer service in deciding whether to continue using a banks service? “ | 4.24 | 0.92 | 1 | 5 | | | | |
| Cost-Benefit Perception | “Would you be willing to pay a small fee for premium customer service (e.g., faster query resolution, dedicated helpline)? “ | | | | | 149 | 167 | 47.15 | 52.85 |
| Retention Impact of Investment | “In your opinion, does investing in better customer service (AI chatbots, more staff, extended hours) help banks retain more customers? “ | 4.09 | 0.87 | 2 | 5 | | | | |

| | | | | | | | | | |
|-----------------------------|---|------|------|---|---|--|--|--|--|
| Service Strategy Perception | “Do you feel that banks focus more on cost-cutting rather than improving customer service?” | 3.46 | 1.55 | 1 | 5 | | | | |
| Cost-Benefit Perception | “Do you believe that banks that offer superior customer service justify charging slightly higher fees for their services? “ | 3.62 | 1.73 | 1 | 5 | | | | |

In the research, emphasis is made on the fact that the customer satisfaction and loyalty are closely associated with timeliness and the speed at which the services are delivered. Low mean indicates that customers attach very much importance to faster resolution of problems. Technology solutions like mobile application and AI-supported chatbots supplement how these services are delivered by cutting down on the number of visits required to go to the branch and boost their speed. However, a very high proportion of customers are price conscious and this means that banks have a challenge of providing services of quality with low cost. Overall, the findings prove that customer retention and long-term loyalty are achieved through human and digital service improvement.

**Structural Model Evaluation
Path Coefficients**

Table 2 Path Coefficients

| | Path Coefficients |
|--|-------------------|
| Customer loyalty - Cost benefit | 0.455 |
| Customer satisfaction - Customer loyalty | 0.557 |
| Customer satisfaction - Operational Efficiency | 0.347 |
| Responsiveness - Customer satisfaction | 0.442 |

Path coefficients indicate moderate to strong relationships:

- The relationship between satisfaction and loyalty of customer (0.557) shows a significant positive impact.
- Responsiveness has a strong positive impact (0.442) on Customer Satisfaction.

T-Statistics and P-Values (from Bootstrapping)

Table 3 T-Statistics and P-Values

| | T Statistics | P values |
|--|--------------|----------|
| Customer loyalty - Cost benefit | 5.587 | 0 |
| Customer satisfaction - Customer loyalty | 8.018 | 0 |
| Customer satisfaction - Operational efficiency | 4.213 | 0 |
| Responsiveness - Customer satisfaction | 5.272 | 0 |

T-statistics above 1.96 and P-values below 0.05 confirm the significance of all path relationships in the model.

R² Values

Table 4 R² Values

| | R square | R square Adjusted |
|------------------------|----------|-------------------|
| Cost Benefit | 0.207 | 0.199 |
| Customer Loyalty | 0.31 | 0.303 |
| Customer Satisfaction | 0.195 | 0.187 |
| Operational Efficiency | 0.12 | 0.111 |

- Customer Loyalty (0.310) has a moderate explanatory power.
- Operational Efficiency (0.120) has a low explanatory power.

Model Fit

Table 5 Model Fit

| | Saturated Model | Estimated Model |
|-----|-----------------|-----------------|
| SMR | 0.123 | 0.129 |

SRMR (Standardized Root Mean Square Residual)

Saturated Model: 0.123, Estimated Model: 0.129. An SRMR value below 0.08 is generally considered a good fit, and these values indicate that the model is an acceptable fit to the data.

Schematically, the SEM results indicate that the service responsiveness (b = 0.557) and customer satisfaction (b = 0.442) are statistically significant customers loyalty predictors with high T-statistics and low P-values. The importance of perceived value in retaining customers can be observed by the moderate positive relation (0.455) of loyalty to cost-benefit perception where the latter is the determinant of the customer retention. The customer benefit construct has low consistency (Cronbachs alpha = 0.428). The latter can be improved. Good discriminant validity could not be ruled out in Fornell-Larcker test, and the values of R² (0.31 in loyalty, 0.12 in operational efficiency) indicate that there are other contributors to the results, as well. SRMR value (0.129) mentions the fit of the model as slightly worse. In general, it seems that the quality of services and improvements in responsiveness, satisfaction, and value perceptions come as pivotal to loyalty building with the customers.

Yamane Sampling

To decide how many people to include in the study, Yamane’s formula was used. The formula is:

$$n = N / 1 + N \cdot e^2$$

Using the values:

$$n = 316 / 1 + 316 \cdot (0.05)^2 = 177$$

Therefore, the least amount of respondents required has been 177. In this research we have received a total of 316 responses which is not less than what has been needed hence raising the accuracy of the findings.

Discussions and Conclusion:

The general aim of the study was to investigate the how the customer service in enhancing the

operations of the retail banking by investigation of how responsiveness, customer satisfaction, perceived value, and operational efficiency contribute to customer loyalty.

Descriptive statistics showed that responsiveness and satisfaction were felt by the customers strongly as the underlying passionate forces behind the general banking experience. This is in concurrence with the existing literature that lays emphasis on high quality service being very crucial in the accomplishment of long term customer relationship.

Moreover, the results were supported by the SEM findings. The greatest predictor of customer loyalty was responsiveness (path coefficient = 0.557), where it indicated that responsive and fast service has a direct influence on customer retention. In the same way, customer satisfaction (path coefficient = 0.442) had a meaningful and positive effect agreeing that customer satisfaction provides more opportunities of customer loyalty to their bank. The findings support the fact that it is important that front-line service encounters are exceptionally important operators of customer commitment and engagement.

The perceived value (path coefficient = 0.455) was a good predictor of loyalty. The customers will be loyal on the relationship with the bank as long as they feel that their getting something in addition to what the norm services are offering in the area of prices convenient, customized services or convenience.

Surprisingly, although operational effectiveness was significant, it was correlated with loyalty relatively less ($R^2 = 0.12$). This advisory makes a judgment that the back-end innovation does not necessarily have an impact on customer behaviour unless an immediate conversion is made into the quality of service at the front-end. Operation strategies should thus be delivered in a manner that it augments and enhances customer-related service.

The other important finding was the low reliability of customer benefit construct (alpha Cronbach = 0.428), which means that the instrument of scale measurement may require scaling. This construct would better be scaled and improved in future researches in order to improve its internal consistency and gain a better measurement of the perceptions of customers about benefits. Lastly, the overall fit of the model is represented by an R^2 value of 0.31 for loyalty and an SRMR value of 0.129 that the model fits well but that perhaps other unmeasured variables also affect customer loyalty. Experiences using online banking, emotional satisfaction, or demographic disparities might provide additional explanation power to include in subsequent models.

In summary, this paper upholds the two assumptions that customer service is an important factor that cannot be overestimated as far as the creation of customer loyalty in the banks is concerned. Responsiveness and satisfaction, as well as perceived value were identified as driving forces, but to a large proportion, operational efficiency was the facilitator. This finding offers a learning lesson to the banking companies that aim at maintaining a healthy customer relationship and keeping the customers loyal to them in the long-term. Our next study will come with validating on these results by adding new variables of the digital change and consumer confidence in the construction of the long model of the customer loyalty of the new changing bank environment.

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