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## **A STUDY OF IMPACT OF LOAN SERVICE QUALITY ON CUSTOMER SATISFACTION IN COMMERCIAL BANKS**

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### **Abstract**

**Purpose:** The main objective of this research is to study the impact of loan service quality in commercial banks on customer satisfaction. The focus of this study is to examine the impact of key components of loan service quality, namely loan application and approval process, employee behavior and guidance, reliability and security, promptness, and physical and digital facilities, on customer satisfaction and customer loyalty.

**Research Design / Methodology / Approach:** Descriptive and analytical research methods have been adopted in this study. Primary data were collected through a structured questionnaire using a five-point Likert scale. 120 account holders were selected through convenience sampling. The data obtained were analyzed using mean and Chi-square tests, thereby testing the hypotheses and clarifying the relationship between the factors.

**Findings:** The study found that loan service quality has a significant and positive impact on customer satisfaction. Customer satisfaction increases because the loan application and approval process is easy and transparent. Employee behavior, prompt service, secure transactions and reliable information strengthen customers' trust in banks. Also, customer loyalty increases if loan service quality improves. All null hypotheses have been rejected by Chi-square test and a statistically significant relationship has been proven between the factors.

**Practical Implications:** This study provides useful suggestions to bank management to improve loan service processes. Simplifying the loan process, increasing employee training, strengthening

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digital facilities and improving security measures can increase customer satisfaction and customer retention.

**Originality / Value:** This study is based on primary data collected from account holders and is an original study that statistically proves the relationship between loan service quality and customer satisfaction.

**Keywords:** *Loan service quality, customer satisfaction, commercial banks, loan approval process, customer loyalty, service reliability.*

**Paper Type:** Research Paper

## Introduction

The banking sector is considered to be the main pillar of the economic development of any country. After the economic reforms, liberalization and globalization in India, there has been a lot of competition in the banking sector. With the entry of public, private and foreign banks, various financial services have been made available to the customers and attracting and retaining customers has become a big challenge for banks. In such a competitive environment, it is not enough to provide loans alone, but it is seen that the quality of loan service has a direct impact on customer satisfaction. Nowadays, loan has become an essential factor for personal, professional and industrial development, not just a tool to fulfill financial needs. Banks are fulfilling the needs of customers through various loan schemes such as home loans, car loans, education loans, personal loans as well as business loans. However, the loan approval process, loan terms and conditions, interest rates, fulfillment of documents, speed of loan disbursement, advisory services, ease of repayment and post-loan customer service management – all these factors determine the quality of loan service. The more effective this quality is, the more satisfied the customer remains and builds a long-term relationship with the bank. Customer satisfaction is a very important concept in modern management. A satisfied customer is not only a source of revenue for a bank but also acts as a brand ambassador of the bank. On the contrary, a dissatisfied customer creates a negative image. Therefore, maintaining customer satisfaction has

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become a strategic objective for commercial banks. Especially since loan services are a sensitive and risky service in banking, its quality has a great impact on customer satisfaction.

### **Objectives of the research**

1. To study loan service quality in commercial banks.
2. To analyze the impact of loan service quality on customer satisfaction.
3. To measure the satisfaction level of borrowers.
4. To identify major problems and difficulties in loan service.
5. To suggest suggestions for improving loan service quality.

### **Research Hypotheses**

1.  $H_0$ : Loan service quality has no significant impact on customer satisfaction.  
 $H_1$ : Loan service quality has a significant impact on customer satisfaction.
2.  $H_0$ : There is no relationship between the speed of loan approval process and customer satisfaction.  
 $H_1$ : There is a positive relationship between the speed of loan approval process and customer satisfaction.
3.  $H_0$ : The behavior of bank employees does not affect customer satisfaction.  
 $H_1$ : The behavior of bank employees has a significant impact on customer satisfaction.

### **Methodology**

The present research has adopted descriptive and analytical research methods to study the impact of loan service quality in commercial banks on customer satisfaction. This study mainly uses primary data and it has been collected directly from the borrowers. For this, a structured questionnaire has been used as the main data collection tool. The questionnaire includes five point Likert Scale type questions based on the factors of loan approval process, service speed, employee behavior, information transparency, digital loan facilities and overall satisfaction.

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Convenient random sampling method has been used for sample selection. The respondent group is the borrowers of various commercial banks in Junnar and Ambegaon taluka's selected for the study. The sample size has been determined according to the scope of the research. Statistical techniques such as percentage analysis, mean and standard deviation, correlation analysis and Chi-Square test have been used to analyze the collected data. Based on the findings, the impact of loan service quality on customer satisfaction has been explained and necessary suggestions have been made.

The major limitation of this research is that the respondent group of the present research is limited to the borrowers of various commercial banks in Junnar and Ambegaon taluka's and the findings will be based on the personal experiences and opinions of the respondents.

### **Sampling**

Convenience Sampling Method has been used for sample selection for the present research. 120 loan account holder of commercial banks were selected for the study. Respondents were selected on the basis of availability and cooperation. The collected data has been used to analyze the impact of loan service quality on customer satisfaction.

### **Analysis and Interpretation of Primary Data**

The primary data collected in the research is very important for directly verifying the objectives of the study. The information obtained from the account holders through the questionnaire is useful in understanding the impact of loan service quality on customer satisfaction. It is not possible to draw conclusions without proper classification and statistical analysis of the information. Therefore, analyzing the primary data is considered an essential and crucial stage in the research. Based on this analysis, the research hypotheses are accepted or rejected. The primary data in the present research have been analyzed with the help of percentage, mean and chi-test as follows.

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**Table No.1: Analysis of Primary Data**

Statements	Options				Score	Mean	X <sup>2</sup> Value	P value				
	1	2	3	4								
<b>B) Quality of Loan Service</b>												
<b>I) Loan Application and Approval Process</b>												
The loan application process is simple and easy to understand.	10	15	80	15	340	2.8	111.6	.0001***				
The documents required for loan approval are clearly explained.	13	16	77	14	332	2.8	98.3	.0001***				
Loan was approved within a reasonable time.	16	23	67	14	319	2.7	62.3	.0001***				
Bank provides transparent information regarding the terms of the loan.	09	14	84	13	341	2.8	130.7	.0001***				
<b>Total</b>	<b>48</b>	<b>68</b>	<b>308</b>	<b>56</b>	---	<b>2.7</b>	394.4	.0001***				
<b>II) Staff Behavior and Guidance</b>												
The bank staff are polite and cooperative during the loan process.	09	14	81	16	344	2.9	116.4	.0001***				
The staff provides proper guidance regarding loan schemes.	11	17	86	06	327	2.7	141.4	.0001***				
My doubts regarding the loan are resolved quickly.	11	15	79	15	338	2.8	107.0	.0001***				
<b>Total</b>	<b>31</b>	<b>46</b>	<b>246</b>	<b>37</b>	---	<b>2.8</b>	361.8	.0001***				
<b>III) Reliability and Security</b>												
The bank fulfills the promises made at the time of loan approval.	10	14	90	06	332	2.8	161.0	.0001***				
I feel confident while dealing with my bank for loan services.	11	14	79	16	340	2.8	107.1	.0001***				
The bank maintains the confidentiality of my financial information.	12	13	84	11	334	2.8	129.6	.0001***				
<b>Total</b>	<b>33</b>	<b>41</b>	<b>253</b>	<b>33</b>	---	<b>2.6</b>	<b>394.1</b>	.0001***				



<b>IV) Responsiveness</b>								
The bank provides timely information regarding the status of the loan.	12	14	76	18	340	2.8	94.6	.0001***
The bank provides timely reminders regarding loan installments.	12	16	78	14	334	2.8	102.6	.0001***
<b>Total</b>	<b>24</b>	<b>30</b>	<b>154</b>	<b>32</b>	<b>---</b>	<b>2.4</b>	<b>196.9</b>	.0001***
<b>V) Physical and Digital Facilities</b>								
The bank provides online/digital facilities for loan services.	10	12	84	14	342	2.9	129.8	.0001***
Physical facilities in the bank (counter services, etc.) are satisfactory.	10	11	84	15	344	2.9	130.0	.0001***
<b>Total</b>	<b>20</b>	<b>23</b>	<b>168</b>	<b>29</b>	<b>---</b>	<b>2.5</b>	<b>259.9</b>	.0001***
<b>Overall Total (I+II+III+IV+V)</b>	15	20	112	18			<b>1599.</b>	.0001***
	6	8	9	7			<b>1</b>	
<b>Section C) Customer Satisfaction</b>								
I am satisfied with the overall loan service of my bank.	14	16	77	13	329	2.7	98.3	.0001***
The loan service meets my expectations.	11	17	79	13	334	2.8	107.3	.0001***
I will choose this bank if I need to borrow again in the future.	13	17	79	11	328	2.7	107.3	.0001***
I will recommend this bank to others for loan service.	14	17	80	09	324	2.7	112.2	.0001***
<b>Total</b>	<b>52</b>	<b>67</b>	<b>315</b>	<b>46</b>	<b>---</b>	<b>2.5</b>	<b>424.4</b>	.0001***
<b>Section D) Impact</b>								
The quality of loan service has a positive impact on my satisfaction.	08	12	90	10	342	2.9	160.2	.0001***
Increase my loyalty to the bank if the quality of loan service improves.	10	12	86	12	340	2.8	139.4	.0001***
<b>Total</b>	<b>18</b>	<b>24</b>	<b>176</b>	<b>22</b>	<b>---</b>	<b>2.6</b>	<b>299.3</b>	.0001***
<i>(Source: Primary Data)</i>								
<i>(*** : &lt;0.001 p &lt; 0.001. Highly significant, less than 0.1%)</i>								



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### **A) Quality of Loan Service**

Quality of Loan Service is a key determinant of customer satisfaction in the banking sector. It includes the loan application process, employee behavior, reliability, responsiveness, and physical and digital facilities. Therefore, studying the quality of loan service is essential in research to assess customer satisfaction, bank efficiency, and competitive advantage.

#### **I) Loan Application and Approval Process:**

Loan Application and Approval Process is a very important element of loan service quality. The customer experience depends on the ease of loan application, clarity of required documents, time taken for approval and transparency regarding terms and conditions. Therefore, studying this element is essential in research to assess customer satisfaction and bank service efficiency. The analysis of the important statements related to it is as follows:

The combined mean of all four statements is 2.7. The total Chi-Square value is 394.4 and a p-value of 0.0001. Since this value is less than 0.05, there is a significant consensus among the respondents regarding the quality of the loan application and approval process. Therefore, it can be concluded that this component of loan service quality is satisfactory.

#### **II) Staff Behavior and Guidance**

Staff Behavior and Guidance is an important factor of loan service quality. The behavior, cooperation, politeness and proper guidance of the staff during the loan process increases the trust of the customers. Effective staff service directly affects customer satisfaction. Therefore, studying this factor is essential in research to evaluate the service quality of banks. The analysis of the important statements related to it is as follows:

The combined mean of all three statements is 2.8. The total Chi-Square value is 361.8 and a p-value of 0.0001. Since this value is less than 0.05, there is a significant consensus among the respondents regarding the staff behavior and guidance directly effects on satisfaction of account holder. Therefore, it can be concluded that this component of staff behavior and guidance is satisfactory.



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### **III) Reliability and Security**

Reliability and Security is a very sensitive and important factor of loan service quality. Customer trust depends on whether the promises made at the time of loan approval are kept, whether the confidentiality of customer financial information is maintained, and whether transactions are secure. Therefore, studying this factor is essential in research to assess customer satisfaction and trust in banks. The analysis of the important statements related to it is as follows:

The combined mean of all three statements is 2.6. The total Chi-Square value is 394.1 and a p-value of 0.0001. Since this value is less than 0.05, there is a significant consensus among the respondents regarding the reliability and security directly effects on satisfaction of account holder. Therefore, it can be concluded that this component of reliability and security is satisfactory.

### **IV) Responsiveness**

Responsiveness is an important component of loan service quality. Customer satisfaction depends on timely information about the status of loan applications, prompt resolution of customer queries, and proper instructions regarding installments. Therefore, studying responsiveness is essential in research to assess bank service efficiency and customer satisfaction.

The combined mean of all three statements is 2.4. The total Chi-Square value is 196.9 with a *p-value of 0.0001*. Since the p-value is less than 0.05, there is a statistically significant consensus among the respondents regarding the impact of responsiveness on the satisfaction of account holders. Therefore, it can be concluded that the responsiveness of component of loan service quality is satisfactory.

### **V) Physical and Digital Facilities**

Physical and Digital Facilities are important components of loan service quality. The physical layout of a bank branch, seating arrangements, counter services, as well as online loan application, tracking and installment payment facilities, facilitate the customer experience.



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Therefore, studying this component is essential in research to assess modern banking service quality and customer satisfaction.

The combined mean of all three statements is 2.5. The total Chi-Square value is 259.9 with a *p-value of 0.0001*. Since the p-value is less than 0.05, there is a statistically significant consensus among the respondents regarding the impact of physical and digital facilities on the satisfaction of account holders. Therefore, it can be concluded that the physical and digital facilities component of loan service quality is satisfactory.

### **B) Customer Satisfaction**

Customer Satisfaction is an important indicator of banking service performance. The level of satisfaction depends on the extent to which customer expectations are met due to the quality of loan services. A satisfied customer builds a long-term relationship with the bank. Therefore, studying customer satisfaction is essential in research to assess service quality, customer loyalty, and the competitive success of banks.

### **C) Impact of Loan Service Quality on Customer Satisfaction in Commercial Banks**

The table no.02 presents an analysis of the responses received regarding the impact of loan service quality in commercial banks on customer satisfaction and loyalty. Two major statements have been presented under this component and responses have been recorded from 120 customers according to Likert Scale options. Conclusions have been drawn based on the obtained scores, mean and Chi-Square ( $X^2$ ) test. The total scores obtained for statement first are 342 and the average coefficient is 2.9. The Chi-Square value is 160.2 and the p-value is 0.0001. Since the p-value is less than 0.05, these findings are statistically significant. This shows that the majority of the respondents have agreed that their satisfaction has increased due to loan service quality. That is, there is a positive relationship between loan service quality and customer satisfaction. The total scores obtained for second statement are 340 and the average is 2.8. The Chi-Square value is 139.4 and p-value is 0.0001. This shows that the majority of respondents believe that the long-term loyalty of the account holders towards the bank increases if the loan service quality improves.

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The combined mean of both the statements is 2.6. The overall Chi-Square value is 299.3 and *p-value is 0.0001*. Since the p-value is less than 0.05, there is a significant consensus among the respondents regarding the impact of loan service quality on customer satisfaction and loyalty. From the above analysis, it can be concluded that the loan service quality in commercial banks has a positive impact on the satisfaction of the account holders. Also, if the service quality improves, the customer loyalty towards the bank increases. Due to the very low *p-value (0.0001)* in the Chi-Square test, these findings are statistically significant.

### **Hypotheses Testing:**

Statistical verification of the hypotheses formulated in the present study is crucial for determining their acceptance or rejection and for providing scientific justification to the research findings. Hypothesis testing strengthens the reliability and validity of the study outcomes by ensuring objective evaluation of relationships among variables. Accordingly, the Chi-square test has been employed as an appropriate statistical technique for testing the proposed hypotheses. The hypotheses testing is shown in the following table:

**Table no.2. Hypotheses Testing**

<b>Hypotheses</b>	<b>Test</b>	<b>df</b>	<b>Value</b>	<b>P value</b>	<b>Remark</b>
Loan service quality has a significant impact on customer satisfaction.	Chi-square	03	1599.1	.0001***	H <sub>0</sub> : Rejected
There is a positive relationship between the speed of loan approval process and customer satisfaction.	Chi-square	03	424.4	.0001***	H <sub>0</sub> : Rejected
The behavior of bank employees has a significant impact on customer satisfaction.	Chi-square	03	299.3	.0001***	H <sub>0</sub> : Rejected

The statistical verification of the hypotheses presented in the research presented in Table No. 02 above is presented through Chi-square test. For the first hypothesis, the null hypothesis “Loan service quality does not have a significant effect on customer satisfaction (H<sub>0</sub>)” was tested. Since the obtained Chi-square value was 1599.1 and p-value was 0.0001 (less than 0.05), H<sub>0</sub> was rejected. This shows that loan service quality has a significant effect on customer



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satisfaction. In the second hypothesis, the relationship between the speed of loan approval process and customer satisfaction was examined. Since the Chi-square value was 424.4 and p-value was found, the null hypothesis was rejected. This shows that the speed of loan approval process is positively related to customer satisfaction. In the third hypothesis, the effect of bank employee behavior on customer satisfaction was examined. Since the Chi-square value was 299.3 and p-value was 0.0001, the null hypothesis was rejected. Therefore, it is proven that employee behavior has a significant impact on customer satisfaction.

Overall, the findings of the Chi-square test show that all the alternative hypotheses of the research are accepted and that loan service quality, speed of approval process and employee behavior are significant determinants of customer satisfaction.

### **Important Findings**

1. The researcher found that, the quality of loan services in commercial banks has a significant and positive impact on customer satisfaction. ( $X^2$  Value = 1599.1, df=.3, p Value= 0.0001)
2. The study revealed that the majority of respondents find the loan application and approval process simple, transparent and easy to understand, which increases customer satisfaction. ( $X^2$  Value = 394.4, df=.3, p Value= 0.0001)
3. The researcher found that there is a positive relationship between the speed of loan approval process and customer satisfaction. ( $X^2$  Value = 62.3, df=.3, p Value= 0.0001)
4. The study revealed that the behavior and guidance of bank employees have a significant impact on customer satisfaction. ( $X^2$  Value = 361.8, df=.3, p Value= 0.0001)
5. The researcher found that the factors of reliability and security increase the trust of customers in banks. ( $X^2$  Value = 394.1, df=.3, p Value= 0.0001)
6. The study revealed that responsiveness, i.e. providing information and services in a timely manner, is helpful in increasing customer satisfaction. ( $X^2$  Value = 196.1, df=.3, p Value= 0.0001)



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7. The researcher found that physical and digital facilities (branch facilities and online loan services) make the customer experience more convenient. ( $X^2$  Value =259.9, df=.3, p Value= 0.0001)
8. The study revealed that if the quality of loan services improves, the loyalty of customers towards the bank increases. ( $X^2$  Value =424.4, df=.3, p Value= 0.0001)
9. The overall findings indicate that loan service quality is a key determinant of customer satisfaction and customer retention.

### **Practical Implication**

The present research model explains the relationship between loan service quality and customer satisfaction and loyalty in commercial banks. According to this model, various components of loan service quality are the major determinants of customer satisfaction. The model includes five major components as independent variables: loan application and approval process, employee behavior and guidance, reliability and security, responsiveness, and physical and digital facilities. All these components directly affect the dependent variable, customer satisfaction. That is, the easier and more transparent the loan application process, the more cooperative and helpful the employees are, the more reliable and secure the transactions are, the more prompt the service is, and the more convenient the physical and digital facilities are, the more the satisfaction level of the account holders with the banks increases. Further, in this model, customer satisfaction is considered as a central factor leading to customer loyalty. That is, when customers are satisfied with the loan service of the bank, they prefer to take loans from the same bank again and recommend that bank to others. This creates a long-term relationship with the bank.

In this research, all the hypotheses are statistically proven based on Chi-square test, so this model is supported by empirical evidence. Therefore, commercial banks need to continuously improve all the above five elements of loan service quality to increase customer satisfaction and loyalty. Thus, this model explains the cause–effect relationship between loan



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service quality, customer satisfaction and customer loyalty and serves as a guide for banking service management.

## **Discussion**

The main objective of this research was to study the impact of loan service quality in commercial banks on customer satisfaction. The findings obtained based on primary data, statistical analysis and Chi-square test are being clarified in this discussion. The study found that loan service quality is a major determinant of customer satisfaction. If the loan application and approval process is simple, transparent and completed on time, customers' trust in banks increases. This creates a positive experience among customers. On the contrary, if there is delay or unclear information in the process, the possibility of dissatisfaction increases. Therefore, it is necessary for banks to make the loan application process easier and digital. Also, the behavior and guidance of bank employees significantly affect customer satisfaction. The study revealed that humble, cooperative and informed employees increase customer confidence. If the customer's doubts are resolved promptly, they develop an emotional bond with the bank. Therefore, banks need to regularly train employees and develop customer-oriented service skills. This factor is very sensitive in modern banking transactions. The study found that customers are more loyal to the bank if they are assured of the privacy of their financial information and the security of their transactions. Therefore, banks need to pay special attention to cyber security, data protection and transparent transactions. Responsiveness is a measure of the service efficiency of banks. The study revealed that timely information, reminders of installments, notification of application status and prompt redressal of complaints are factors that increase customer satisfaction. Therefore, effective use of digital communication channels is necessary. Also, physical and digital facilities make the customer experience easier. Facilities in the branch, waiting arrangements, as well as online loan application and tracking systems save customers time and effort. In today's digital era, it is necessary for banks to make technology-based services more efficient.



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Overall, the study revealed that the sequential cause-effect relationship of loan service quality, customer satisfaction, customer loyalty is actually found. This relationship is statistically reliable as all hypotheses were proven by the Chi-square test. Therefore, it is imperative for commercial banks to make balanced and consistent improvements across all elements of loan service quality to achieve customer satisfaction and long-term loyalty.

## **Conclusion**

The findings of this research clearly show that the quality of loan services of banks has a direct and significant impact on customer satisfaction and customer loyalty. If the loan application and approval process is easy, transparent and completed on time, the trust of customers in banks increases. Also, positive behavior of employees, proper guidance and prompt service play an important role in increasing customer satisfaction. The study also found that reliability, security and modern digital and physical facilities in transactions keep customers connected to banks.

Overall, the research concludes that continuous improvement in loan service quality increases customer satisfaction and consequently strengthens customer loyalty and the competitive ability of banks. Therefore, banks need to adopt customer-oriented policies and make innovative improvements in service quality.

**Conflict of Interest:** the authors certify that they have no affiliations with in any organization with any financial or non-financial interest in the subject matter or materials discussed in this manuscript

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