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Customer Experience Quality and Loyalty in Complex Banking Ecosystems: Asymmetric Roles of Satisfaction and Trust

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Abstract

Purpose

Retail banks in India invest heavily in customer experience quality (CEQ), yet loyalty outcomes remain modest, creating a strategic "conversion puzzle" in a competitive, digitally evolving market. This study examines why CEQ fails to convert efficiently into loyalty by comparing the roles of customer satisfaction and customer trust as transmission mechanisms in Indian retail banking.

Design/methodology/approach

Survey data from 550 retail banking customers in Delhi NCR were analysed using partial least squares structural equation modelling (PLS–SEM). CEQ was specified as a reflective–reflective higher-order construct capturing cognitive clarity, emotional reassurance, relational warmth, digital–physical interface quality and process–touchpoint integration. A disjoint two-stage approach was used, and bootstrapped mediation assessed differential pathway efficiency.

Findings

CEQ strongly activates both satisfaction and trust, but in an asymmetric pattern: CEQ's effect on trust is larger than on satisfaction, yet satisfaction converts into loyalty more efficiently than trust. CEQ also retains a substantial direct effect on loyalty, suggesting the presence of autonomous experiential capital beyond satisfaction and trust.

Practical implications

Indian banks should adopt dual-horizon customer experience strategies: fast-yield investments that enhance satisfaction (friction reduction, clarity, process coherence) and long-horizon programs that build trust (transparent communication, reliable recovery, benevolent conduct), rather than treating all experience initiatives as equivalent loyalty drivers.

Originality/value

The study reconceptualises CEQ as an integrated customer experience system, introduces the evaluative–relational paradox and conversion friction as mechanism-level contributions, and offers an India-specific framework for allocating customer experience investments based on pathway efficiency.

Keywords

Customer experience quality; customer satisfaction; customer trust; customer loyalty; Indian retail banking; PLS–SEM; emerging markets

1. Introduction

Retail banks in India face a structural paradox that threatens their competitive position. Despite aggressive capital allocation towards customer experience transformation—including omnichannel integration, interface redesign and process simplification—customer loyalty remains fragile, and switching behaviour persists even when service delivery indicators improve. The managerial crisis is not whether customer experience matters, but why enhanced experiential architectures fail to convert into sustained loyalty at expected rates in India's retail banking ecosystem, where customers routinely maintain relationships with multiple banks and digital standardisation erodes functional differentiation. Consequently, the strategic question has shifted from optimising service delivery events to understanding the experiential architecture that converts repeated customer encounters into durable relational capital.

For Indian bank managers, this issue is urgent. As transactional functionality becomes increasingly commoditised, competitive advantage depends less on basic service provision and more on the orchestration of experience across channels and episodes. Yet even where banks invest substantially in experience enhancement, the route through which these investments crystallise into enduring commitments remains insufficiently understood. The core strategic problem is therefore not whether customer experience matters, but how and through which mechanisms it is translated into loyalty in a banking ecosystem marked by digital acceleration, relational dependency and institutional complexity.

Existing theories do not fully resolve this problem. The service quality tradition, most notably SERVQUAL, made a major contribution by identifying perceived gaps between expected and received services, but it was designed to assess functional delivery rather than the total experiential logic of contemporary service relationships. In practice, banking customers evaluate far more than technical accuracy or responsiveness; they interpret informational clarity, emotional reassurance, cross-channel coherence, interface fluency and relational warmth as parts of a broader institutional signal. Service-Dominant Logic moved theory in this direction by framing value as co-created and phenomenologically determined rather than embedded in outputs alone, while customer-journey scholarship emphasises that experience emerges across multiple touchpoints over time. However, much empirical work still fragments experience into separate dimensions treated as parallel predictors, and a further limitation concerns the mediation logic: studies frequently invoke satisfaction and trust, yet often assume, without testing, that the more strongly activated mediator will also convert more efficiently into loyalty.

Three specific deficits follow from this literature. First, there is a conceptual deficit: customer experience quality is often represented as a collection of dimensions rather than as a unified architecture. The EXQ tradition and related work have improved measurement substantially, but the dominant empirical habit still asks which dimension matters most instead of whether these dimensions jointly reveal deeper institutional competence. Second, there is a mechanistic deficit: satisfaction and trust are analytically distinct—satisfaction is an evaluative judgment rooted in expectation confirmation, whereas trust is a relational state rooted in reduced vulnerability and perceived benevolence—yet many studies either test one mediator in isolation or include both without theorising that they may operate with different temporal logics and conversion efficiencies. Third, there is a contextual deficit: much theory on experience, trust and loyalty has been developed in relatively mature institutional environments, whereas emerging-market banking, including India, is characterised by service heterogeneity, regulatory unevenness, variable confidence in institutions and simultaneous reliance on digital and interpersonal channels; in such contexts, mechanisms that appear stable in Western settings may behave differently.

This study addresses these gaps by advancing a mechanism-based claim grounded in Indian retail banking. We conceptualise customer experience quality (CEQ) as a reflective–reflective higher-order construct that captures an integrated customer experience system composed of cognitive clarity, emotional reassurance, relational warmth, digital–physical interface quality and process–touchpoint integration. The theoretical premise is that these dimensions are not independent levers but co-varying manifestations of a deeper institutional capability. Building on expectation-confirmation logic, we treat customer satisfaction as a cumulative appraisal that updates quickly when interactions consistently meet or exceed expectations, whereas building on relationship marketing and social exchange reasoning, we treat customer trust as a gradually accumulated confidence that the bank is competent, reliable and benevolent under conditions of vulnerability. The central argument is that these pathways are not equivalent: CEQ may activate trust more powerfully because coherent experience sends strong signals of institutional quality, especially in uncertain environments, yet satisfaction may convert to loyalty more efficiently because it is cognitively proximal, immediately interpretable and directly usable in repatronage decisions, while trust faces conversion friction in institutionally complex settings where accumulated assurance does not translate into commitment at the same rate.

The study makes four contributions to customer experience and relationship marketing theory, with specific relevance to Indian management. First, it reconceptualises CEQ as a customer experience system rather than a multidimensional inventory, extending research from attribute decomposition towards higher-order institutional representation. Second, it identifies what we term the evaluative–relational paradox: the mediator that is activated more intensely is not necessarily the mediator that converts most efficiently into loyalty, thereby sharpening relationship marketing theory by separating activation from throughput. Third, it shows that institutional complexity in emerging-market banking should not be treated as mere background context, but as a conditioning environment that alters how experiential signals become evaluative, particularly for customer trust. Fourth, it offers a banking-specific strategic implication for Indian managers: experience investments that generate relatively rapid evaluative returns must be distinguished from those that build slower relational assurance, because banks compete not merely through service provision but through the orchestration of confidence, coherence and continuity in customer relationships. Taken together, the study demonstrates that customer experience does not convert into loyalty uniformly, but through asymmetric mechanisms in which satisfaction converts more efficiently than trust in Indian retail banking.

2. Theoretical foundations and hypothesis development

2.1 The experiential turn in banking: from functional delivery to architectural quality

The strategic centre of competition in banking has shifted. Historically, banks competed through product range, branch access, service reliability and price-related conditions; these factors remain important, but they no longer exhaust competitive differentiation. In contemporary banking, customers do not assess isolated transactions alone; they assess the integrated quality of the relationship as lived across channels, touchpoints and episodes. This movement from service event to experience system is consistent with broader developments in service theory. Service-Dominant Logic argues that value is co-created through resource integration and experienced phenomenologically by beneficiaries rather than embedded in outputs themselves, while the experience-economy thesis suggests that firms increasingly compete through staged and interpreted experiences rather than mere functional outputs. Relationship marketing complements this shift by locating long-term advantage in enduring relational bonds rather than transaction-by-transaction exchange.

In banking, this experiential turn is particularly consequential because the service relationship concerns money, security, privacy and long-term personal outcomes. Customers interact with banks under conditions of risk, asymmetry and consequence, so a mortgage decision, a failed digital transaction, an unexplained fee or an unresolved service request is not interpreted as a minor inconvenience; it becomes an institutional cue. This is why a narrow service quality framework is insufficient. SERVQUAL remains foundational, but it was developed to capture perceived quality gaps in service delivery rather than the full texture of the customer's cross-channel relationship with a bank; it privileges diagnostic categories such as reliability, assurance and responsiveness, which are valuable but do not fully represent how customers experience integrated journeys.

Subsequent scholarship addressed this limitation. Schmitt argues that customers interpret organisations through sensory, affective, cognitive, behavioural and relational experiences, while customer-journey research places the journey at the centre, emphasising that experience emerges before, during and after purchase across firm-owned, partner-owned, customer-owned and social touchpoints. McColl-Kennedy et al. further note that meaningful customer-experience insight requires understanding how experiences unfold in context rather than isolating moments detached from the service system. Klaus and Maklan contributed an important advance through the EXQ framework, which moved beyond traditional service quality by foregrounding experience quality as a multidimensional construct, and De Keyser et al. extended the field conceptually through the touchpoints–context–qualities nomenclature, clarifying how experience should be studied as a layered phenomenon.

Banking research has increasingly acknowledged this shift. Reviews of digital banking document how customer experience now depends on the interplay of digital usability, emotional security, speed, service support and consistency across channels, and empirical work shows that banking experience influences value co-creation, loyalty and switching costs through mechanisms that extend beyond technical service quality. Keiningham et al. argue more broadly that customer experience can drive business-model innovation, underscoring that experience is not a peripheral communication issue but an organising principle of firm strategy. However, much empirical work still analyses experiential dimensions as separable variables, implicitly asking which facet has the strongest marginal effect. This is analytically useful but theoretically narrowing. In banking, customers rarely parse informational clarity, emotional reassurance, relationship warmth and process fluency as entirely separate phenomena; they interpret them as parts of one institutional signal—whether the bank is capable of delivering a coherent, reassuring and dependable relationship. This study therefore treats CEQ as a successor paradigm to traditional service-quality logic, capturing the holistic quality of the banking relationship as experienced across the entire interaction arc rather than as a checklist of isolated features.

2.2 Customer experience quality as reflective higher-order architecture

A core premise of this paper is that CEQ should be specified as a reflective–reflective higher-order construct. This choice is not merely methodological; it is theoretical. A reflective specification implies that the underlying latent construct gives rise to the observed dimensions. In our context, the underlying capability of the bank is reflected through cognitive clarity, emotional reassurance, relational warmth, interface quality and process integration. When a bank is genuinely capable of orchestrating high-quality experience, these dimensions should move together. They are not independent causal agents acting on the customer in isolation; rather, they are surface manifestations of a deeper architecture.

This conceptualisation fits the banking context well. A bank that improves cognitive clarity through simple explanations, transparent product information and decision support does not only affect cognition; it also tends to reduce anxiety, improve emotional reassurance, enhance perceptions of staff helpfulness and make cross-channel movement feel more coherent. Likewise, process integration is unlikely to be experienced as a purely operational improvement. Seamless service journeys often signal care, competence and respect for customer time, thereby affecting emotional and relational judgments. Experience dimensions in banking are therefore entangled because customers interpret them as evidence of the same institutional order.

The reflective–reflective higher-order model allows this logic to be represented parsimoniously. Rather than fragmenting the construct into multiple predictors that may artificially compete for explanatory power, the higher-order structure recognises common variance as theoretically meaningful. Sarstedt et al., Hair et al. and Becker et al. recommend higher-order modelling in PLS-SEM when conceptually related lower-order dimensions together capture a broader phenomenon and reflect a common conceptual domain. The disjoint two-stage approach is especially suitable because it separates estimation of lower-order constructs from the higher-order construct, reducing redundancy and supporting stable hierarchical estimation.

The first implication of this conceptualisation concerns satisfaction. Satisfaction in banking should be understood not as a reaction to a single transaction but as an evaluative summary of how well the relationship is functioning. When customers repeatedly encounter clarity, reassurance, relational attentiveness, interface fluency and process coherence, they generate a favourable appraisal of the banking relationship. This appraisal is cumulative and comparative; it reflects whether the experience consistently meets or exceeds expectations across episodes. In banking, where service episodes can be routine yet consequential, coherent experience should generate evaluative surplus by lowering effort, reducing uncertainty and reinforcing perceived value, and prior research provides evidence that customer-experience management strengthens loyalty partly through enhanced evaluations of the relationship. On this basis, we propose the following hypothesis:

H1. CEQ exerts a significant positive effect on customer satisfaction.

The second implication concerns trust. Banking is structurally marked by vulnerability: customers surrender funds, information and decision latitude to institutions whose internal processes they cannot directly monitor.

Trust therefore serves as a mechanism for reducing perceived exposure. Relationship-marketing theory positions trust as central to durable exchange because it supports confidence in partner reliability and integrity, and social-exchange logic adds that repeated positive interactions enable expectations of reciprocity and dependable conduct. In banking, high-quality experience is not interpreted solely as convenience; it is also interpreted as evidence of institutional benevolence and competence. When a bank communicates clearly, resolves problems smoothly, behaves respectfully and provides consistent service across channels, customers infer that the organisation is capable and likely to honour its obligations, and prior studies show that service quality and relationship-marketing practices contribute to trust-based loyalty, particularly in emerging markets where institutional assurance is less taken for granted. Therefore:

H2. CEQ exerts a significant positive effect on customer trust.

2.3 Customer satisfaction: a rapid crystallisation mechanism

Satisfaction occupies a central but often overly simplified position in loyalty research. It is accumulative rather than episodic—it grows through repeated appraisals of the relationship, not through a single encounter—and it is actionable, because customers use satisfaction as a compressed evaluative signal when deciding whether to remain, repurchase or intensify the relationship.

Expectation-confirmation theory explains why satisfaction can crystallise quickly. Customers enter interactions with standards, hopes or threshold expectations; when experience repeatedly confirms or exceeds those expectations, positive appraisal forms. In retail banking, the conditions for such appraisal are especially clear. A transaction completed without friction, a branch interaction handled with respect, a fee explained transparently or a digital service request resolved without escalation all provide immediate evaluative evidence. Satisfaction is therefore temporally proximal; it does not require deep relational inference, and customers can readily conclude that the bank is performing well for them.

This evaluative proximity matters for loyalty. Oliver argues that loyalty involves commitment that goes beyond repeated behaviour, but satisfaction often operates as a necessary precursor by generating favourable attitudes toward continued patronage, and prior work shows that satisfaction supports future behavioural intentions because it reduces uncertainty about continued exchange. In banking, satisfaction lowers the perceived risk and cognitive burden of staying with the current provider, especially given the administrative inconvenience of switching. When the existing relationship is satisfactorily evaluated, continued patronage becomes the path of least resistance, and empirical studies in retail and digital banking confirm that satisfaction is central in building customer loyalty. The relevant theoretical point is not that satisfaction is shallow or trivial, but that it is a fast-acting evaluative mechanism; because it is cognitively accessible, it can convert experiential quality into loyalty with relatively limited delay. Thus:

H3. Customer satisfaction exerts a significant positive effect on customer loyalty.

2.4 Customer trust: a gradual accumulation mechanism

Trust is conceptually distinct from satisfaction. While satisfaction summarises whether performance meets expectations, trust addresses whether the partner is dependable under conditions of uncertainty. This distinction is especially salient in banking because customer vulnerability is structurally embedded. Deposits, payments, data privacy, lending decisions and financial advice all entail asymmetries in knowledge and control, and a bank may satisfy a customer in many encounters yet still be only partially trusted if the customer remains unsure about the institution’s long-term intentions or reliability under strain.

Relationship-marketing theory positions trust as indispensable to committed exchange because it reduces fear of opportunism and facilitates relational continuity, and empirical work shows that relational mechanisms underpin loyalty in service settings. In banking, trust accumulates through repeated demonstrations that the institution is competent, consistent and fair; it is therefore slower to form than satisfaction, and a customer may be satisfied with several interactions before concluding that the bank is truly dependable.

This slower temporal dynamic is compounded in emerging-market banking. Trust does not form in a social vacuum; it is filtered through broader institutional experience. Where customers have historical reasons to view financial institutions cautiously, or where service quality varies sharply across providers, trust may remain contingent even when immediate experience is positive. This is what we later describe as conversion friction. Trust can be activated strongly because customers recognise high experiential quality as a signal of institutional ability and care, yet its translation into loyalty may be slowed by residual caution. Recent studies highlight that online trust continues to matter across generational segments of bank customers, and that trust is built partly through satisfaction-related processes, but these results do not imply that trust and satisfaction convert to loyalty with equal efficiency. Despite potential friction, trust should still positively influence loyalty. When customers believe their bank is reliable, honest and benevolent, they are less inclined to search, compare or defect; trust reduces the perceived attractiveness of switching by lowering the anticipated risk of staying and deepens the psychological basis of the relationship beyond immediate performance appraisal. Therefore:

H4. Customer trust exerts a significant positive effect on customer loyalty.

2.5 Customer loyalty formation

Loyalty in banking should not be reduced to mere intention to repurchase. A customer may remain with a bank out of inertia, administrative burden or lack of alternatives without being genuinely loyal. Following Oliver, loyalty is better understood as a strong commitment to repatronise or maintain a relationship despite situational pressures that might encourage switching. In retail banking, loyalty involves the crystallisation of cognitive preference, affective attachment and behavioural persistence into a relatively stable commitment.

This broader interpretation is supported by prior studies. Research in multi-channel banking shows that loyalty is shaped by antecedents that extend beyond simple service attributes, and other work indicates that experience and satisfaction shape stronger relational outcomes than repeated behaviour alone. Strategically, loyalty matters because it influences wallet share, cross-buying, retention and resistance to competitor offers, and because the banking relationship can deepen over time through multiple products and life-stage transitions. A robust account of loyalty must therefore explain how customers stabilise preferences and commitments under conditions of channel plurality and institutional uncertainty.

2.6 Asymmetric dual mediation: the evaluative–relational paradox

The theoretical centrepiece of this paper is the proposition that satisfaction and trust mediate the CEQ–loyalty relationship asymmetrically. Most studies implicitly assume mediator symmetry: if experience strongly affects trust, trust is expected to be a correspondingly strong route to loyalty; if experience strongly affects satisfaction, satisfaction is expected to carry that effect proportionally. This expectation is rarely stated explicitly, but it often underpins interpretation. We challenge that assumption.

Satisfaction and trust are both plausible mediators, yet they operate through different mechanisms and temporalities. Satisfaction is fast-moving: each interaction provides new evidence that updates the customer’s evaluative ledger, and because the judgment is immediate and accessible, it can be used quickly in loyalty decisions. Trust is slower-moving: it requires interpretive accumulation, as customers must infer that consistent positive experience reveals not only competence but benevolent institutional intent, and in emerging-market banking, that inference can be dampened by residual caution. High-quality experience may therefore activate trust strongly without producing proportionally stronger loyalty conversion.

This creates what we term the evaluative–relational paradox. The relational pathway may be stronger upstream, because integrated experience is a powerful trust signal, especially where institutional assurance is uncertain, yet the evaluative pathway may be more efficient downstream, because satisfaction is easier to translate into continued patronage. Prior work documents mediation by satisfaction and trust, including in digital and e-service settings, but does not sufficiently address whether the two routes differ systematically in throughput. Zhao et al. offer a useful mediation framework by distinguishing complementary partial mediation from other forms, allowing more precise interpretation of simultaneous direct and indirect effects.

On this basis, rather than treating satisfaction and trust as parallel mediators, this study conceptualises them as competing mechanisms through which customer experience translates into loyalty. Satisfaction represents a fast evaluative pathway, while trust represents a slower relational pathway, permitting examination of differences in conversion efficiency rather than simply mediation presence. Accordingly, we propose:

H5. Customer satisfaction partially mediates the relationship between CEQ and customer loyalty.

H6. Customer trust partially mediates the relationship between CEQ and customer loyalty.

3. Methodology

3.1 Research context and sampling

The empirical setting is retail banking in the Delhi National Capital Region (NCR), India. The choice of context is theoretically motivated rather than driven by convenience. Delhi NCR offers a dense service ecosystem in which public-sector, private-sector and foreign banks operate concurrently, exposing customers to substantial variation in service design, digital sophistication, branch experience and relational style. It is also a context in which rapid digital expansion coexists with continued reliance on interpersonal and branch-based support, making it appropriate for examining customer experience as an integrated architecture rather than as a purely digital or purely interpersonal phenomenon.

A cross-sectional survey design was used, suitable for testing theoretically specified relationships among latent constructs in a naturally occurring service environment. Data were collected using non-probability purposive sampling. Respondents were required to be individual retail banking customers with an active primary relationship with a bank for at least six months, ensuring sufficient exposure to evaluate experience quality, trust, satisfaction and loyalty. Data collection followed a mixed-mode protocol: trained field investigators approached respondents at branch locations and ATM points with a hard-copy questionnaire, while an online version was distributed through web-based channels to extend reach and reduce location bias.

Table 1: Demographic and Profile Characteristics of Respondents (N = 550)

Variable	Category	Frequency (n)	Percentage (%)
Gender	Male	317	57.6
	Female	233	42.4
Age Group (Years)	18-25	104	18.9
	26-35	190	34.5
	36-45	147	26.7
	46-55	60	10.9
	56+	49	8.9
Education Level	Graduate	260	47.3
	Postgraduate	228	41.5
	Doctorate	62	11.3
Monthly Income (INR)	<25,000	122	22.2
	25,000 - 50,000	202	36.7
	50,000 - 1,00,000	149	27.1
	>1,00,000	77	14.0
Relationship Duration with Bank	<1 year	51	9.3
	1 - 3 years	176	32.0

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	3 - 5 years	161	29.3
	>5 years	162	29.5
Type of Bank Used	Public	249	45.3
	Private	251	45.6
	Foreign	50	9.1
Region (Delhi NCR)	Delhi	91	16.5
	Faridabad	121	22.0
	Ghaziabad	96	17.5
	Gurugram	127	23.1
	Noida	115	20.9

A total of 550 usable responses were retained for analysis. The sample profile indicates substantive relationship experience and demographic diversity. Most respondents had maintained their primary banking relationship for more than 12 months (90.7 per cent), strengthening the appropriateness of measuring cumulative experience-related judgments. The sample was 57.6 per cent male, and the dominant age segment was 26–45 years (61.2 per cent), capturing economically active customers likely to engage across several banking services. A large majority were graduates or postgraduates (88.8 per cent), which is relevant given the interpretive demands of evaluating digital and relational quality in banking. The sample also reflected institutional plurality, with near-equal representation from public banks (45.3 per cent) and private banks (45.6 per cent), thereby increasing contextual relevance. Collectively, these characteristics yield a theoretically coherent and empirically robust context for examining the sequential pathway from customer experience to satisfaction, trust and loyalty, and increase confidence that the observed relationships reflect stable attitudinal and behavioural tendencies rather than transient perceptions.

3.2 Measurement instrument

The questionnaire contained 30 items measured on a five-point Likert-type scale ranging from 1 = strongly disagree to 5 = strongly agree. All constructs were operationalised reflectively, and item wording was adapted from established literature and refined for the Indian retail-banking context to preserve conceptual validity while ensuring contextual fit.

Customer experience quality was specified as a reflective–reflective higher-order construct comprising five first-order dimensions. Cognitive experience quality (CogEQ) was measured with four items capturing transactional clarity, information simplicity, decision support and product comprehension. Emotional experience quality (EEQ) included four items reflecting service confidence, anxiety reduction, emotional security and stress-free interaction. Relational experience quality (REQ) comprised four items addressing courtesy, customer concern, personalised attention and staff responsiveness. Digital–physical service experience quality (DSEQ) was represented by three items focused on digital visual appeal, navigation fluency and branch ambience. Process–touchpoint integration quality (PTIQ) included three items relating to cross-channel consistency, journey seamlessness and touchpoint coordination.

The mediating and outcome constructs were each measured using four items. Customer satisfaction captured cumulative evaluative judgment regarding the banking relationship. Customer trust reflected confidence in the bank's reliability, honesty and dependability. Customer loyalty represented enduring preference and commitment towards the bank. Core item sources were adapted from Klaus and Maklan, Oliver and Boonlertvanich, with wording adjusted to fit Indian retail-banking usage patterns.

3.3 Analytical strategy

The theoretical model was estimated using partial least squares structural equation modelling (PLS-SEM) via SmartPLS 4.0. PLS-SEM was selected because the research objective is fundamentally predictive and mechanism-focused, aiming to explain differential conversion pathways of experiential architecture into loyalty. The methodology accommodates the complex reflective–reflective higher-order structure of CEQ while supporting robust mediation analysis.

The hierarchical CEQ structure was estimated using the disjoint two-stage approach. In Stage 1, first-order experiential dimensions were estimated to generate latent variable scores; in Stage 2, these scores served as indicators for the second-order CEQ construct. Mediation effects were evaluated using 5,000 bootstrapped resamples with bias-corrected confidence intervals, enabling precise assessment of complementary partial mediation and differential pathway efficiencies.

Measurement-model assessment followed standard criteria. Indicator reliability was evaluated through outer loadings, with 0.70 used as a general reference point. Internal-consistency reliability was assessed using Cronbach's alpha, rho_a and composite reliability. Convergent validity was assessed through average variance extracted (AVE), and discriminant validity was examined using the heterotrait–monotrait ratio (HTMT), with values below 0.85 indicating adequate distinction. Structural-model assessment involved examining path coefficients, explained variance (R^2), effect sizes (f^2), inner-model collinearity and bootstrapped significance, with bootstrapping based on 5,000 resamples and bias-corrected confidence intervals. Mediation interpretation followed Zhao et al., allowing classification of complementary partial mediation where direct and indirect effects are both significant and directionally consistent, and variance accounted for (VAF) was reported as an index of the proportion of the total effect transmitted indirectly.

Common-method bias was addressed procedurally and statistically. Procedural remedies included respondent anonymity, clear instructions, item sequencing and scale design intended to reduce evaluation apprehension and response patterning. Statistical assessment involved Harman's single-factor diagnostic and examination of inner VIF values. All inner VIF values were below the commonly used 3.3 threshold, reducing concerns about common-method contamination and problematic multicollinearity.

4. Results

4.1 Measurement model

The measurement model demonstrated satisfactory reliability and validity across all constructs. Table 1 reports internal-consistency reliability and convergent-validity statistics.

Table 2: Measurement Model Assessment

Construct	Indicator	Loading	Cronbach's α	rho_A	Composite Reliability (rho_C)	AVE
CEQ	CogEQ	0.933				
	EEQ	0.923				
	PDIQ	0.919				
	PTIQ	0.913				
	REQ	0.916	0.955	0.955	0.965	0.848
CS	CS1	0.787				
	CS2	0.771				
	CS3	0.783				

	CS4	0.787	0.788	0.789	0.863	0.612
TR	TR1	0.802				
	TR2	0.793				
	TR3	0.785				
	TR4	0.742	0.787	0.791	0.862	0.61
CL	CL1	0.778				
	CL2	0.793				
	CL3	0.824				
	CL4	0.758	0.797	0.800	0.868	0.622

All values exceeded recommended minimum levels. The lower-order constructs displayed acceptable internal consistency, with Cronbach's alpha values close to 0.80 and composite-reliability values above 0.86. AVE values ranged from 0.610 to 0.622 for customer satisfaction (CS), customer trust (TR) and customer loyalty (CL), indicating that each construct explained more than half of the variance in its indicators. The CEQ higher-order construct displayed especially strong psychometric properties (α = 0.955; CR = 0.965; AVE = 0.848). Rather than suggesting problematic redundancy, these values support the argument that CEQ captures a highly cohesive experiential domain in which the dimensions are strongly united by a common latent source.

Indicator reliability was also satisfactory. As shown in Table 3, all outer loadings exceeded the 0.70 reference level.

Table 3. Outer loadings

Construct / Indicator	**Loading**
CEQ HOC Dimensions (second-order)	
CogEQ	0.933
EEQ	0.923
DSEQ	0.919
REQ	0.916
PTIQ	0.913
Customer Satisfaction (CS)	
CS1	0.787
CS2	0.771
CS3	0.783
CS4	0.787
Customer Trust (TR)	
TR1	0.802
TR2	0.793
TR3	0.785
TR4	0.742
Customer Loyalty (CL)	
CL1	0.778

CL2	0.793
CL3	0.824
CL4	0.758

The second-order CEQ loadings are especially informative. The five experiential dimensions loaded very strongly on the higher-order construct, and the spread between the highest and lowest loading was only 0.020. This near-uniformity provides substantive support for the view that CEQ behaves as a unified experiential gestalt rather than a loose collection of facets. Customers do not appear to parse cognitive, emotional, relational, digital and processual elements as disconnected categories; instead, they register them as parallel manifestations of overall institutional experience quality.

Discriminant validity was assessed using HTMT. As shown in Table 4, all pairwise values were below the conservative threshold of 0.85.

Table 4. Discriminant validity (HTMT)

Construct	CEQ	CL	CS	TR
CEQ	-			
CL	0.777	-		
CS	0.675	0.719	-	
TR	0.742	0.712	0.526	-

These results indicate that the constructs are empirically distinct. The relatively low HTMT value between trust and satisfaction (0.526) is particularly important because it confirms that the two mediators are not simply alternative labels for the same attitudinal state; they are related but distinct transmission mechanisms. This strengthens the theoretical plausibility of modelling them simultaneously. Collinearity diagnostics were also satisfactory. Inner-model VIF values ranged from 1.000 to 2.170, all well below 3.3, and outer VIF values for the CEQ dimensions ranged from 3.905 to 4.894, remaining below 5.0. Together, these diagnostics suggest that multicollinearity did not distort the estimates and that common-method bias is unlikely to be a severe threat to interpretation.

4.2 Structural model

The structural model was then assessed. The model achieved acceptable fit and explanatory power. The SRMR value was 0.050, which is below the conventional 0.08 threshold. Explained variance was moderate to substantial: R^2 was 0.344 for customer satisfaction, 0.417 for customer trust and 0.531 for customer loyalty. Thus, the model explained more than half of the variance in loyalty, which is meaningful in a behavioural–attitudinal context such as retail banking.

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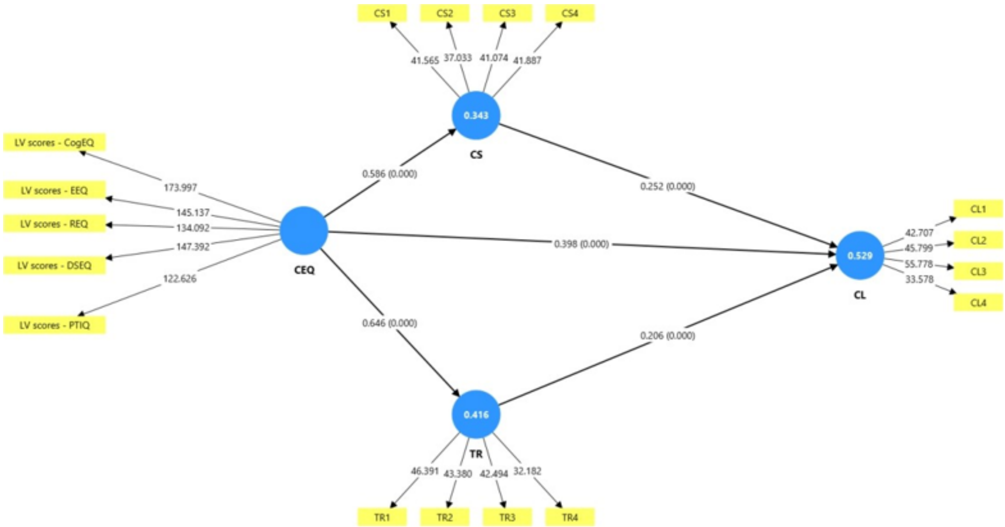

Figure 1: Structural model with path coefficients, significance levels and explained variance

Table 5. Structural Model Result (Direct Effect)

Hypothesis	Path	β (Effect size)	t-value	p-value	95% BCa CI	f^2	Outcome
H_1	CEQ → CS	0.586	23.647	0.000	[0.532, 0.632]	0.524	**Supported**
H_2	CEQ → TR	0.646	26.324	0.000	[0.594, 0.691]	0.715	**Supported**
H_3	CS → CL	0.252	6.549	0.000	[0.173, 0.324]	0.089	**Supported**
H_4	TR → CL	0.206	5.335	0.000	[0.128, 0.281]	0.053	**Supported**
	CEQ → CL (Direct)	0.398	10.496	<0.001	[0.323, 0.470]	0.156	**Significant**

Notes: BCa CI = Bias-corrected and accelerated confidence interval. All p-values are two-tailed.

All direct hypotheses were supported. CEQ exerted a strong positive effect on customer satisfaction ($\beta = 0.586$) and an even stronger positive effect on customer trust ($\beta = 0.646$); both effects were large, with f^2 values of 0.524 and 0.715, respectively. These results suggest that integrated experiential quality is a powerful generator of both customer satisfaction and customer trust in banking. However, the stronger upstream effect on trust is already suggestive of asymmetry, because the two mediators may not translate to loyalty equally.

Customer satisfaction positively influenced loyalty ($\beta = 0.252$), and customer trust also positively influenced loyalty ($\beta = 0.206$). Both effects were significant, but their f^2 values were comparatively small (0.089 and 0.053), indicating modest downstream contributions. Satisfaction had a somewhat stronger effect on loyalty than trust. CEQ also retained a direct positive effect on loyalty ($\beta = 0.398$), with a medium effect size ($f^2 = 0.156$), indicating that mediation is incomplete and that experiential quality influences loyalty through both mediated and direct channels.

The most theoretically important pattern lies in the contrast between the upstream and downstream segments of the model. CEQ's effect on trust is stronger than its effect on satisfaction, and the difference in effect size is substantial, yet satisfaction's effect on loyalty is stronger than trust's. Put differently, trust is activated more intensely, but satisfaction converts more efficiently. This empirical pattern underlies the evaluative–relational paradox proposed in the theoretical framework.

4.3 Mediation analysis

Mediation results are reported in Table 6. Both indirect effects were positive and statistically significant, and neither confidence interval included zero; therefore, H5 and H6 were supported. The satisfaction pathway carried an indirect effect of 0.148, while the trust pathway carried an indirect effect of 0.133. The difference is modest in absolute terms but theoretically meaningful because it runs counter to the activation pattern observed in the direct effects: although CEQ activated trust more strongly than satisfaction, the satisfaction pathway transmitted more of CEQ's influence into loyalty.

Table 6. Mediation analysis

Path	Indirect effect	t-value	p-value	95% BCa CI
H_5: CEQ → CS → CL	0.148	6.091	<0.001	[0.100, 0.195]
H_6: CEQ → TR → CL	0.133	5.265	<0.001	[0.083, 0.183]
Total indirect effect	0.281	-	<0.001	[0.216, 0.344]
Total effect (CEQ → CL)	0.679	33.554	<0.001	-
VAF	0.414	-	-	-

Under Zhao et al.'s framework, the pattern indicates complementary partial mediation. The direct effect of CEQ on loyalty remained significant and positive alongside both positive indirect effects. The total indirect effect was 0.281, and the total effect of CEQ on loyalty was 0.679, so 41.4 per cent of the total effect was transmitted indirectly through satisfaction and trust, while the remaining 58.6 per cent occurred directly. This proportion is important because it indicates that a substantial part of loyalty formation is not exhausted by satisfaction and trust and reflects autonomous experiential capital.

The asymmetry can also be interpreted proportionally. The indirect effect via satisfaction is approximately 11.3 per cent larger than the indirect effect via trust, despite the weaker CEQ-to-satisfaction activation. This is precisely the evaluative–relational paradox proposed in the theory section: activation intensity and conversion efficiency are not the same. The results suggest that satisfaction is the more efficient conduit for transforming experiential quality into loyalty in this banking context, even though trust is more responsive to experiential quality upstream.

To assess the robustness of the proposed asymmetric mediation structure, an alternative parallel-mediation model—treating customer satisfaction and customer trust as equivalent and simultaneous mediators—was also estimated. Although the overall pattern of relationships remained directionally consistent, the alternative specification yielded comparatively weaker explanatory power and offered limited insight into the differential roles of the two mediators. In particular, it did not capture the variation in conversion efficiency between satisfaction and trust that is central to this study's theoretical argument. These results support the appropriateness of modelling satisfaction and trust as asymmetric pathways rather than as interchangeable mediators in the customer-experience–loyalty relationship.

4.4 Higher-order construct validation

Further support for the architectural interpretation of CEQ comes from the higher-order weights. The outer weights were 0.221 for CogEQ, 0.219 for DSEQ, 0.218 for EEQ, 0.217 for PTIQ and 0.210 for REQ, all significant at $p < 0.001$ with t-values ranging from 55.456 to 64.137. The close clustering of these weights indicates that no single experiential dimension overwhelmingly defines the higher-order construct; instead, the dimensions contribute with notable balance. This pattern is consistent with the theoretical argument that customers perceive banking experience as a coherent institutional configuration rather than as a set of loosely attached features.

5. Discussion

5.1 Customer experience system: beyond multidimensional inventories

The findings help explain a key challenge in retail banking: why investments in customer experience often fail to generate proportional gains in customer loyalty. The first major implication concerns the nature of CEQ itself. The high and tightly clustered higher-order loadings provide strong evidence that customer experience quality in retail banking behaves as an integrated architecture. This matters because much of the customer-experience literature, despite conceptual breadth, still tends to operationalise experience as a set of dimensions entering models as separate antecedents. Our results suggest that such decomposition may miss an important feature of how customers actually interpret banking relationships. Customers appear to read experience holistically: cognitive clarity, emotional reassurance, relational warmth, interface fluency and process integration are not isolated inputs in the lived experience of banking; they are interdependent manifestations of institutional order.

This result extends the EXQ tradition rather than rejecting it. Klaus and Maklan were instrumental in moving beyond service quality towards customer experience quality; the present study advances that trajectory by showing that, in banking, experiential quality can be theorised and estimated at a higher-order level. The argument is also compatible with Service-Dominant Logic, which emphasises resource integration and the phenomenological nature of value: if customers derive value from the entire service system rather than discrete outputs, then the architecture of experience should be modelled as an integrated whole. In practical theoretical terms, this shifts the question from "which dimension matters most?" to "how do dimensions co-constitute a credible institutional signal?" Consistent with robustness checks using an alternative parallel-mediation specification, the findings confirm that modelling satisfaction and trust as asymmetric pathways provides a more precise explanation of how customer experience translates into loyalty in retail banking.

5.2 The evaluative–relational paradox: activation does not equal conversion

The central theoretical contribution of the study lies in the paradox revealed by the mediation structure. CEQ had a stronger effect on trust than on satisfaction, yet satisfaction transmitted more of CEQ's influence into loyalty. This pattern is not easily explained by linear or symmetric mediator logic; it requires attention to the differing temporal and cognitive properties of evaluative and relational mechanisms. It helps explain why banks sometimes fail to achieve expected returns from customer-experience investments despite measurable improvements in service delivery.

Satisfaction is rapid. It forms through repeated but readily accessible appraisals of whether the relationship performs well. When customers experience transparent communication, low friction, smooth digital journeys and respectful service encounters, they can quickly conclude that the bank is meeting expectations, and this evaluative judgment is immediately usable in behavioural orientation. It supports continued patronage because it lowers decision complexity and confirms that staying is reasonable, consistent with expectation-confirmation logic. Trust, by contrast, is slower and more inferential. It requires customers to conclude not merely that performance is acceptable, but that the institution is dependable under conditions of vulnerability. The stronger CEQ-to-trust path suggests that integrated experience is indeed read as a strong signal of institutional competence and benevolence; high-quality experience has substantial relational meaning. Yet the weaker trust-to-loyalty path implies that this relational meaning does not convert into commitment as efficiently as evaluative judgment.

This is where the notion of conversion friction becomes analytically useful. In an institutionally complex environment, customers may trust their bank more because experience signals professionalism and care, but still hesitate to translate that trust fully into durable commitment. Residual caution may derive from broader ecosystem uncertainty, awareness of alternatives, historical inconsistency in institutional performance or a pragmatic orientation towards financial providers. This interpretation extends commitment–trust theory: while trust remains central to durable relationships, activation strength and conversion efficiency are not identical. Our results suggest that strong trust activation is compatible with comparatively lower loyalty throughput. Relationship-marketing theory therefore benefits from a finer-grained mechanism view in which trust is indispensable but not automatically dominant in behavioural conversion. The findings also complement work that treats satisfaction and trust as serial mechanisms by showing that they can operate as concurrent but asymmetrical channels.

5.3 Persistence of direct effects: autonomous experiential capital

A further important result is the persistence of a sizeable direct effect of CEQ on loyalty. After accounting for satisfaction and trust, CEQ still exerted a substantial direct influence on loyalty ($\beta = 0.398$), and only 41.4 per cent of the total effect was mediated. This means that a majority of the experiential impact on loyalty did not pass through the two modelled mediators, inviting a broader conceptualisation of how experience matters.

We interpret this residual effect as evidence of autonomous experiential capital. By this we mean that experience can create behavioural continuity and attitudinal preference through mechanisms not fully reducible to explicit satisfaction or articulated trust. Customers often remain loyal because the relationship feels easy, familiar, coherent and identity-consistent. A well-designed banking app, a predictable service routine, a reassuring branch ambience or the absence of procedural disruption can build habitual attachment. Such mechanisms are pre-reflective in the sense that customers may not consciously classify them as either evaluative satisfaction or relational trust, yet they still support continuity. Prior studies show that customer experience has substantial behavioural consequences; the present study quantifies how much of that effect bypasses standard mediational channels.

This insight is theoretically important for banking because customer relationships often become embedded in everyday routines. Once payment habits, information expectations, branch preferences and digital behaviours stabilise, experience itself can generate momentum. Loyalty then is not only the consequence of what customers judge and believe, but also of what they become accustomed to. Experience architecture may therefore shape commitment partly by structuring routine and reducing the desirability of disruption.

5.4 Institutional complexity as a conditioner of mediation architecture

The findings also foreground the importance of context. The Delhi NCR banking ecosystem is not a neutral backdrop; it is an environment in which public, private and foreign banks coexist, where customer expectations are shaped by both digital progress and interpersonal service norms, and where trust in institutions cannot be assumed uniformly. In such conditions, satisfaction may carry particular diagnostic salience. Because service quality varies across providers, a satisfactory experience can quickly signal that the bank is outperforming an uncertain baseline, making satisfaction a practical summary judgment with immediate strategic consequences.

Trust, however, appears more context-sensitive. The fact that CEQ strongly activates trust indicates that customers are attentive to institutional cues, yet the weaker downstream conversion suggests that trust is filtered through broader caution. Institutional complexity should therefore be understood not merely as a moderator in a statistical sense, but as a conditioner of mediation architecture: it shapes how experiential signals are interpreted and how those interpretations become behavioural commitments. This insight contributes to emerging-market service research by showing that mediation structures developed in one context should not be assumed to travel unchanged to another.

6. Theoretical contributions

This study makes four theoretical contributions that advance relationship-marketing and customer-experience theory in banking contexts.

First, it reconceptualises customer experience quality as an integrated customer-experience system rather than a collection of separable dimensions. By modelling CEQ as a reflective–reflective higher-order construct, the study extends Service-Dominant Logic by demonstrating that cognitive clarity, emotional reassurance, relational warmth, interface fluency and process integration function as co-manifestations of underlying institutional capability rather than as independent drivers competing for marginal influence.

Second, the study introduces the evaluative–relational paradox, showing that activation strength does not necessarily translate into conversion efficiency. CEQ activates customer trust more strongly than customer satisfaction, yet satisfaction emerges as the more efficient pathway to loyalty. This challenges the implicit assumption in relationship-marketing research that stronger activation implies stronger behavioural conversion and thereby refines commitment–trust theory by distinguishing between activation intensity and loyalty throughput.

Third, the study develops the concept of conversion friction to explain context-dependent differences in trust-to-loyalty transmission. In institutionally complex banking environments, customer trust may accumulate without converting proportionally into loyalty because residual uncertainty, ecosystem heterogeneity and awareness of alternatives dampen behavioural commitment. This extends emerging-market service research by positioning context as a mechanism-conditioning force rather than a passive background.

Fourth, the study identifies autonomous experiential capital as a direct pathway through which customer experience influences loyalty beyond evaluative and relational mediation. The persistence of a substantial direct effect of CEQ on loyalty suggests that experience shapes behavioural continuity through habitual, affective and procedural mechanisms not fully captured by satisfaction or trust. This broadens theoretical understanding of loyalty formation in banking by highlighting that customers may remain committed not only because of what they judge and believe, but also because of the experiential routines and institutional architectures to which they become accustomed.

7. Managerial implications

The findings provide a dual-horizon strategic framework for customer-experience investment allocation, helping resolve the resource-allocation dilemma created by asymmetric conversion efficiency. Banks that continue treating all experiential improvements as equivalent loyalty drivers risk systematic misallocation of resources—overinvesting in trust-building initiatives that do not generate proportional commitment returns, while underinvesting in satisfaction-enhancing improvements that convert efficiently into loyalty. Instead, banks should allocate customer-experience investments based on conversion efficiency, prioritising initiatives that generate immediate satisfaction-driven loyalty while maintaining parallel long-term trust-building strategies. Failure to recognise this asymmetry may lead banks to devote excessive resources to experience initiatives that build trust but do not yield immediate loyalty gains.

First, experience investments should be managed systemically rather than selectively. Because CEQ operates as an integrated architecture, isolated improvements are unlikely to produce their full strategic value. A bank cannot expect a redesigned mobile interface to compensate fully for opaque information, fragmented service processes or emotionally indifferent branch interactions. Senior managers should therefore audit customer experience as a cross-functional system. Operations, digital, branch management and relationship teams need to be aligned around a unified experience architecture rather than fragmented service metrics.

Second, banks should sequence experiential investments according to conversion timeline. Satisfaction converts more efficiently into loyalty than trust, which means that improvements that reduce friction, simplify decisions, clarify information and improve process consistency are likely to yield relatively rapid loyalty gains. Streamlining complaint resolution, improving fee transparency, simplifying onboarding and reducing cross-channel inconsistency can produce fast evaluative returns. These are not merely operational adjustments; they are strategic investments in customer satisfaction.

Third, trust-building should be treated as a distinct strategic programme rather than as an automatic by-product of good service. The lower conversion efficiency of trust does not imply low importance; it implies a longer horizon. Trust requires sustained demonstrations of competence and benevolence. Banks should therefore invest in transparent communication, reliable service recovery, proactive advisory interactions and consistent promise fulfilment. These actions build customer trust slowly, but they are essential for commitment resilience under uncertainty.

Fourth, managers should pay closer attention to autonomous experiential capital. The substantial direct effect of CEQ on loyalty indicates that customers respond not only to what they consciously evaluate, but also to the overall feel and flow of the relationship. Interface design, branch ambience, waiting-time predictability, navigation ease and procedural coherence can create habitual preference. Banks should not underestimate these "quiet" drivers simply because customers do not always articulate them explicitly as reasons for loyalty.

Fifth, strategy should be calibrated to the institutional profile of the bank. Private banks may leverage digital agility and process efficiency to strengthen customer satisfaction quickly. Public banks may rely on relational depth and branch familiarity to support gradual trust accumulation. Foreign banks may compete through premium consistency and symbolic institutional assurance. The key is not to imitate a generic customer-experience model, but to align experience investments with the bank's institutional strengths while recognising the asymmetry between rapid evaluative yield and slower relational conversion.

8. Limitations and future research

This study has several limitations that also point toward productive future research avenues.

First, the cross-sectional design constrains temporal inference. The theoretical argument distinguishes between rapidly updating satisfaction and gradually accumulating trust, but cross-sectional data cannot directly observe these temporal dynamics. Future research should employ panel designs or longitudinal customer tracking to examine how evaluative judgments and customer trust evolve across relationship stages and how their conversion efficiencies change over time.

Second, the study is situated in a single-country setting, specifically Delhi NCR in India. Although this context is theoretically rich, generalisability should not be assumed automatically. Future work could compare banking ecosystems across emerging markets with varying institutional conditions—such as Southeast Asia, Sub-Saharan Africa or Latin America—to test whether conversion friction varies by institutional environment and to identify context-specific mediation architectures.

Third, the study relies on self-reported perceptual measures. Such measures are appropriate for constructs like experience quality, satisfaction and trust, but they cannot fully capture actual behavioural loyalty. Future studies could combine survey data with behavioural indicators such as transaction intensity, product-holding breadth, share of wallet or verified churn, enabling stronger inferences about how experiential mechanisms relate to real behavioural outcomes.

Fourth, the present model does not include moderators. This was a deliberate choice, intended to focus sharply on the paradox of mediation asymmetry, but important boundary conditions remain unexplored. Bank type, customer tenure, digital literacy, age cohort and primary channel usage could alter the strength of experience-to-capital and capital-to-loyalty pathways. Future research should investigate whether the evaluative–relational paradox and conversion friction vary across these segments.

Fifth, the higher-order specification of CEQ is treated as static. The relative salience of cognitive, emotional, relational, digital and process dimensions may shift across life events, service failures or recovery episodes. Future work could examine whether CEQ architecture remains stable across customer-lifecycle stages or whether the weights of its dimensions change under different banking conditions, such as crisis periods, major digital transitions or regulatory shifts.

9. Conclusion

This paper examined how customer experience quality becomes loyalty in emerging-market retail banking. Three conclusions follow. First, CEQ is best understood as a customer-experience system. Cognitive clarity, emotional reassurance, relational warmth, digital–physical interface quality and process–touchpoint integration do not operate as isolated service features; they cohere as manifestations of underlying institutional competence. Second, the transmission of experiential quality into loyalty is asymmetric: CEQ activates trust more strongly than satisfaction, yet satisfaction converts more efficiently into loyalty. This evaluative–relational paradox shows that activation intensity and conversion efficiency are analytically distinct. Third, institutional complexity matters because it conditions mediation architecture. In an emerging-market banking ecosystem, customer trust faces conversion friction, whereas customer satisfaction travels more directly into commitment.

These findings matter for both theory and practice. For theory, they extend customer-experience research beyond multidimensional inventories, refine relationship-marketing logic by separating activation from throughput, and introduce a context-sensitive account of how experience becomes loyalty in banking. For practice, they suggest that bank managers should design experiential strategies with a dual horizon: fast-yield investments that improve evaluative judgments and long-horizon investments that build trust patiently. In emerging economies, the future of banking competition is likely to belong not to institutions that merely digitise transactions, but to those that orchestrate coherent customer-experience systems capable of turning banking interactions into durable relational commitments.

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