



A COMPARATIVE STUDY ON CUSTOMER EXPERIENCE AND SERVICE QUALITY IN SMALL BANKS AND NEW GENERATION BANKS

Nithin Jose

Kristu Jayanti College, Bengaluru

Abstract - Two decades of financial liberalization, rapid technological innovation, and changing customer expectations have transformed the Indian banking sector beyond recognition. A uniquely heterogeneous banking ecosystem has evolved where legacy small banks coexist with technology-driven new generation banks, and customer experience has become a critical determinant of competitiveness and sustainability. The present study reports a primary data-based empirical examination of customer experience and service quality in small banks and new generation banks.

The main purpose of this study is to compare customer perceptions in both the banking segments regarding service efficiency, responsiveness of the staff, digital accessibility, trust, speed of transaction, and grievance redressal mechanisms. Primary data were collected through a structured questionnaire administered on 50 bank customers comprising users of small banks and new generation banks. A descriptive and comparative research design was adopted for the study, wherein the data were analysed using percentage analysis, comparative tabulation, and interpretative techniques.

These findings undoubtedly create a distinction between the two banking models in terms of customer expectation and satisfaction. Small banks have still retained the loyalty of customers through their personalized services, emotional trust, and close banker-customer relationships, especially among rural and elderly consumers. New generation banks, with their digital convenience, real-time transaction capability, efficiency of mobile and internet banking, and structured grievance handling mechanisms, are more appealing to the young and urban consumer segment. However, new generation bank customers also showed apprehensions over hidden charges, less human interaction, and dependency on technology.

The findings of the study indicate that, in the contemporary banking ecosystem, customer experience is increasingly shaped by the dual demand for relational trust and digital efficiency. The paper contributes to the existing literature by providing a primary data-driven comparative perspective and provides practical recommendations for banks on how to combine technological advancement with human-centered service

delivery to enhance customer satisfaction and long-term loyalty.

Keywords: Customer Experience, Small Banks, New Generation Banks, Service Quality, Digital Banking, Customer Satisfaction, Primary Data

INTRODUCTION

The banking industry lies at the core of the national economic architecture, being the most important channel for capital formation, financial intermediation, and monetary stability. The banking industry in India has undergone a metamorphosis through various structural reforms, policy interventions, and technological changes that have transformed the very character of financial services delivery. From a largely manual, branch-centric system to a highly digitized, platform-driven ecosystem, the contours of banking in India today reflect an exciting interplay between tradition and innovation.

Historically, small banks like cooperative banks, regional rural banks, and local area banks have formed the backbone of relationship-based banking in India. These institutions were established with the express purpose of encouraging financial inclusion, providing credit to under-served communities, and stimulating economic growth in rural and semi-urban areas. The operating philosophy has been one of personalized service, long-term customer relationships, and community trust. For decades, these banks have been acting as the main financial support for farmers, small traders, self-help groups, and low-income households.

However, it was in the post-liberalization period that Indian banking began to make a decisive shift. The emergence of private sector and new generation banks ushered in a technology-driven, efficiency-oriented model of banking. These institutions put a premium on automation, real-time processing, digital payment systems, and data-driven customer management. It goes without saying that services like mobile banking, Internet banking, UPI, digital wallets, online loan processing, and paperless Know Your Customer transformed the way customers interact with banks. As a result, customer expectations had begun to shift from basic service delivery



toward speed, convenience, transparency, and continuous digital access.

This dual evolution has given rise to two diverse models of banking that coexist together under the Indian financial system:

Small banks with relationship-oriented and community-based banking, and New generation banks have been characterized by technology-driven and convenience-focused banking.

This has driven increased competition within the banking sector, forcing banks to consider customer experience as a strategic differentiator rather than just an operational outcome.

Customer experience is no longer confined to the quality of face-to-face interactions at the branch. In the contemporary digital context, it is a multidimensional construct that encompasses service efficiency, accessibility, reliability, digital interface usability, staff responsiveness, trust, pricing transparency, and grievance redressal mechanisms. Now, customers judge banks not by how well services are delivered but by how smoothly those services blend into their daily financial lives. This makes it imperative for banks to design service systems aligned with both functional efficiency and emotional satisfaction.

The technological revolution in banking has transformed the nature of customer-bank relationships. Digital platforms have increased the speed of service, reduced transaction costs, and allowed access to finances 24×7, while simultaneously decreasing the number of direct human interactions. This has created a sort of paradox in customer experience wherein efficiency has increased, but emotional engagement and personal trust, in many cases, have diminished. Small banks continue to find strength in interpersonal relationships but can barely match the technological sophistication and service speed of new generation banks. Conversely, new generation banks do very well in digital performance but often face criticism for impersonal service delivery and complex fee structures.

The added complexity is brought in by the shift in customer behaviour. For instance, young and urban customers have a high preference for digital banking channels, immediate transactions, and app-based service management. On the other hand, elderly customers, the rural population, and digitally less literate customers still appreciate personal guidance, branch availability, and trust based on relationships. This set of customer expectations brings in another layer of complexity in designing uniform customer experience strategies across the banking industry.

From the strategic point of view, customer experience has become a critical driver of customer retention, cross-selling,

and brand loyalty. Product differentiation in highly competitive financial markets is increasingly hard to achieve given that most banks are offering similar deposit, loan, and payment products. Therefore, banks are driven to competition along experiential dimensions such as quality of service, responsiveness, emotional assurance, and digital convenience. A superior customer experience not only strengthens customer loyalty but also enhances profitability through the reduction of switching behaviour and increasing lifetime customer value.

Despite the increasing number of writings on service quality and digital banking, a lucid and clear comparative understanding of how the customer experience varies across small banks and new-generation banks, with respect to primary data-driven empirical research, is very limited. Most of the empirical studies are currently concentrated either on rural banking models or on the digital performance of banking in isolation. In comprehensively comparing the experiential dimensions across both banking models within the same analytical framework, there exists a research gap.

This study tries to fill this gap by conducting a comparative analysis of the customer experience in small banks and new generation banks, grounded in primary data. It systematically investigates how customers perceive service quality, staff behaviour, digital access, efficiency of transactions, trust, and grievance handling across these two segments. The study provides a more realistic insight into service delivery in the modern banking environment by capturing lived customer experiences beyond mere institutional performance metrics. Such a comparative exploration assumes greater relevance in the present phase of digital financial expansion when policy initiatives, fintech innovations, and cashless payment systems are rapidly reordering consumer financial behaviour. As India moves forward toward a digitally integrated economy, the sustainability of both small banks and new-generation banks will increasingly depend upon their steering a balance between technological advancement and customer-centric service philosophy. The present research has contributed not only to academic literature but also provided practical implications for banking institutions, policymakers, and service designers in their attempt to envision an inclusive, efficient, and emotionally appealing banking experience. By investigating customer experience at the juncture of technology and human service, the study hints at the evolution of banking relationships in a fast-changing financial ecosystem.

REVIEW OF LITERATURE

Customer experience and service quality in the banking industry have attracted considerable academic attention over the last couple of decades, especially with the rise of digital



banking and the reinvention of traditional banking models. Initial research in this area had a strong focus on service quality as a key driver of customer satisfaction and loyalty. Parasuraman, Zeithaml, and Berry (1988) provided an initial conceptual leap with the development of the SERVQUAL model, where service quality was defined along five critical dimensions: reliability, responsiveness, assurance, empathy, and tangibility. This framework has subsequently become the dominant theoretical basis for measures of service quality within banking, as well as other service contexts.

Subsequent research using the SERVQUAL model extended its application to the analysis of the determinants of customer satisfaction in commercial banking. Cronin and Taylor (1992) suggested that service performance, rather than service quality gaps, bears a more direct relation to shaping customer satisfaction. Their performance-based SERVPERF model further refined how customers evaluate banking services based on actual service delivery, not solely on expectations.

This is also reflected in the changed focus of banking literature, especially with the liberalization of the Indian economy and the entry of private sector and foreign banks. Kumar and Bansal (2020) reported that private and new generation banks outperformed traditional banks as far as transaction speed, technological convenience, and grievance redressal efficiency were concerned. They also confirmed that perceived service efficiency and customer satisfaction improved a lot with digital service platforms.

Rao and Sharma (2017) point out in their comparative study of public and private sector banks that customer satisfaction in private banks is primarily driven by automation, reduced waiting time, and service personalization through technology. On the other hand, the authors identify that the impersonal nature of service delivery in private banks sometimes weakens emotional attachment and trust. This fact reflects a critical trade-off between efficiency and emotional engagement in modern banking.

In contrast, literature pertaining to small banks and cooperative banking institutions identifies trust and continuity of relationships and embeddedness in the local community as key drivers of customer satisfaction. Singh (2019) identified that customers of cooperative banks reveal high emotional loyalty on account of their familiarity with staff, flexible service norms, and personalized financial guidance. The relational advantages compensate for the infrastructural weaknesses brought about by the limited ATM network and slower service processes.

Studies relating to regional rural banks have consistently brought out the role of RRBs in promoting financial inclusion and rural economic development. Mishra and Prasad (2018)

reported that customers of RRBs accord a higher value for accessibility, trust, and social proximity over digital sophistication. However, the same study stressed that limited adoption of digital banking tools restricts scalability of service and competitiveness.

Digital banking and fintech integration have added a whole new dimension to the study of customer experience. Gupta and Yadav (2021) report that mobile banking adoption has significantly influenced customer satisfaction, especially among the younger, urban customer population. Perceived ease of use, system reliability, transaction security, and app interface design emerged as strong predictors of positive banking experience. Their findings underline that the digital interface itself has become a critical “service encounter” in the absence of physical interaction.

Similarly, Verma and Sharma (2022) established that internet banking use positively influences customer loyalty, provided there is appropriate cybersecurity infrastructure and ease of user experience. The study also found that technology anxiety and digital illiteracy are acting as barriers for elderly and rural customers and thus creating inefficiency in service and dissatisfaction.

Research has also been conducted on the role of trust in banking relationships within traditional and digital contexts. Morgan and Hunt's Commitment-Trust Theory of Relationship Marketing, although proposed in 1994, is still widely applicable in explaining long-term customer-bank relationships. The presence of trust in banking extends beyond mere transaction-based matters to more profound levels, such as the security of data, the credibility of financial advice, and ethical conduct. Within a digital banking context, trust has extended to include confidence in digital platforms, cybersecurity systems, and data privacy mechanisms.

Chakraborty's (2020) findings indicate that even in the case of small banks, where personal familiarity replaces technological assurance, trust plays a dominant role. In contrast to these, a higher reliance on system reliability and brand reputation for institutional trust was observed in new-generation banks. This brings out the stark contrast in how trust is being built in traditional and digital banking settings.

The studies on customer switching behaviour have also addressed the comparative dimension of banking service quality. According to Ahmad and Kumar (2019), poor grievance handling, hidden charges, and non-transparency are the major issues for which customers switch to other banks. Though the new generation banks score high on service speed and digital innovation, customers continue to report

dissatisfaction over complex pricing models and automated customer service structures that restrict human interaction.

In the digital era, grievance redressal has become a critical determinant of customer experience. Patel and Mehta (2021) identify that structured and time-bound grievance handling strengthens customer trust in private banks, although the general absence of emotional sensitivity during complaint resolution often leads to dissatisfaction. Small banks, however, resolve complaints through direct managerial intervention that enhances emotional comfort but lacks institutional consistency.

Another budding stream of literature emphasizes customer experience as a holistic construct, going beyond satisfaction and service quality. Lemon and Verhoef (2016) conceptualized customer experience as a cumulative outcome of all touchpoints across pre-service, service, and post-service stages. In the banking context, this would relate to branch visits, interactions with the digital interface, payment processing, engagement with customer support, and grievance resolution. Their framework emphasizes the fact that customer experience does not involve only isolated service encounters but, in fact, is a continuous relationship journey. Recent studies have also put emphasis on the strategic relevance of omni-channel banking. Kaur and Kapoor (2022) observe that the integration of service channels, whether digital or physical, ensures higher customer satisfaction. Customers expect continuity across mobile apps, websites, ATMs, call centres, and branch visits. New-generation banks perform better in terms of omni-channel integration, while small banks remain fragmented in-service delivery. Despite the broad literature on service quality, digital banking, and customer satisfaction, few studies have juxtaposed customer experience for small banks and new generation banks using a consistent analytic framework with primary data. Most of the studies have discussed either rural banking challenges or isolated digital banking performances. This is considered a significant research gap in understanding how customers assess relational trust versus technological efficiency within the same competitive banking environment. Therefore, this study attempts to fill this gap by providing an original data-based comparative analysis of customer experience in small banks versus new generation banks. By integrating service quality dimensions, digital accessibility, trust, staff behaviour, and grievance handling into a single framework of evaluation, the study pushes the existing literature toward a more balanced understanding of modern banking experience at the juncture of human service and digital innovation.

OBJECTIVES OF THE STUDY

The general objective of this research is to comparatively assess customer experience in small banks and new generation banks. The specific objectives are:

- To investigate the nature of customer experience in small banks.
- To evaluate the level of customer experience in new generation banks.
- The dimensions of service quality across both the banking segments.
- To identify the key determinants that influence customer satisfaction.
- The proposed recommendations that can suit both models in improving customer experience.
- RESEARCH METHODOLOGY
- The empirical research approach for this study is based on primary data to analyse the customer experience in small banks and new generation banks. This methodological approach is aptly designed to systematically capture customer perceptions, service quality evaluations, and satisfaction levels across both banking segments.
- Research Design:
- The research design of this study is descriptive and comparative in nature. The study aims to describe the customer experience, as it exists in both types of banks, and to comparatively analyse variations in service quality, technological convenience, and customer support mechanisms.
- Data Collection Method:
- This study relies on both primary and secondary sources of data.
- Primary data is gathered by a structured questionnaire from bank customers directly.
- Secondary Data: Collected from books, research journals, bank publications, RBI reports, and published articles related to customer experience and service quality in banking.

Sampling Technique: Convenience sampling was adopted because of easy access to respondents, besides the time constraints factor. Selection was based on customers who were willing and ready to participate in the study.

Sample Size:

The sample size included 50 respondents selected for the study:

25 customers of small banks

25 customers from new generation banks



Data Analysis Method:

The collected data was then analysed using:

Percentage analysis

Comparative tabulation

Graphical representation: bar charts and pie charts

Interpretative analysis:

These tools provided a clear comparison of customer experience dimensions across both bank categories.

Research Instrument:

The structured questionnaire containing both closed-ended and opinion-based questions was the main research instrument. The areas covered under the questionnaire included service quality, staff behaviour, digital banking use, speed of transactions, handling grievances, and overall satisfaction.

SUMMARY OF THE FINDINGS

Key findings of the study based on primary data analysis are summarized below.

- A considerable share of young and urban customers prefers new generation banks due to fast services and better digital facilities.
- The elderly and rural customers favoured small banks due to personal association and mutual trust.
- New generation banks have scored higher on parameters such as the efficiency of mobile banking, availability of internet banking, speed of transactions.
- Small banks received higher ratings in terms of friendliness of the staff and personalized attention.
- Customers of new generation banks complained of hidden charges and service fees.
- The grievance handling mechanisms were more structured and time-bound in new generation banks compared to the small banks.

Overall, new generation banks had relatively higher levels of satisfaction, primarily among those customers that were digitally active.

INTERPRETATION OF RESULTS

Result interpretation gives an in-depth analytical understanding of the primary data collected from customers of small banks

and new generation banks. The findings clearly indicate that in the modern banking environment, customer experience is determined by a multitude of factors that are sometimes conflicting, such as technological efficiency, human interaction, service reliability, and emotional trust. The research has underlined a structural difference in the customer's perception of the level and quality of banking services in these two banking models.

Thus, one of the most important inferences that could be drawn from these findings is the fact that age and digital familiarity are the key determinants of customer preference. Younger customers from urban and semi-urban areas prefer new generation banks because their services are available flawlessly on their mobile phones, and they have real-time fund transfers, online loan processing, and app-based management of their respective accounts. For this customer segment, convenience, speed, and reach are more vital than face-to-face interaction. Banking as a concept is viewed as a utility enabled by technology rather than a relationship-oriented service. This illustrates how digital service logic is highly influencing the modern concept of banking.

By contrast, the findings indicate that older clients and rural consumers still attach more significance to personalized service and personal contact, a quintessential strength of small banks. For these customers, emotional security, interpersonal trust, and institutional familiarity play a far more critical role than transactional speed. It is the physical presence of managerial intervention, providing lots of emotional comfort and assurance to the customers, though this was devoid of formal documentation and system transparency.

Another critical interpretation emerges from the client responses on service charges and transparency. Several respondents reported that the new generation banks have problems with hidden charges, penalty deductions, and lack of clarity about the price structure. A possible implication is that despite the technological efficiency, modern banking models perceived fairness and transparency remain weak. In contrast, small banks were perceived to be more transparent because of direct communication, whereas their pricing flexibility was informal and less standardized.

The findings also suggest a distinct stratification of the expectation of customer experience. There is no single standards framework applied to banks by customers. Customers, instead, set varied experiential measures based on their economic background, technological literacy, and personal risk perception. Reinforcing this idea is the fact that customer experience is not universally defined; rather, it is contextual and socially embedded. What may mean superior



service for one segment does not carry the same value for another.

A more nuanced reading even suggests that neither small banks nor new generation banks, individually fulfil the full range of customer experiences. It also reveals that while small banks excel in trust, emotional assurance, and personalized engagement, this is usually accompanied by slow digital scalability and slower operation speed. New generation banks dominate in digital efficiency, service automation, but largely struggle in terms of emotional engagement, continuity of relationships, and perceived fairness of pricing structures. This imbalance is an indicator that the current banking ecosystem has a functional–emotional trade-off in service delivery.

From a strategic point of view, the interpretation of results provides the following: customer experience in modern banking is increasingly hybrid in nature, combining digital infrastructure with human-centered service principles. No longer does the customer view technology and personal interaction as mutually exclusive service models but expects them to coexist within an integrated service architecture. Any institution not integrating these dimensions risks losing customer trust despite technological advancement. The findings also confirm the theoretical propositions of relationship marketing and service quality theory by showing that emotional trust, reliability, and responsiveness are still vital in highly digitized service contexts. Technological innovation increases convenience but does not replace the From a strategic point of view, the interpretation of results provides the following: customer experience in modern banking is increasingly hybrid in nature, combining digital infrastructure with human-centered service principles. No longer does the customer view technology and personal interaction as mutually exclusive service models but expects them to coexist within an integrated service architecture. Any institution not integrating these dimensions risks losing customer trust despite technological advancement. The findings also confirm the theoretical propositions of relationship marketing and service quality theory by showing that emotional trust, reliability, and responsiveness are still vital in highly digitized service contexts. Technological innovation increases convenience but does not replace the psychological assurance obtained from human service contact. Overall, interpretation of the results points out that the future competitiveness of banks, whether small or new generation, lies in their ability to balance digital efficiency and emotional intelligence in service delivery. Customer experience is no longer solely determined by how fast a transaction is processed but by how confidently, transparently, and empathetically the financial relationship is managed. This insight holds strong implications for banking

strategy, policy design, and service innovation within the evolving financial landscape.

LIMITATIONS OF THE STUDY

The Study has the following shortcomings:

- The sample of 50 respondents may not fully represent the whole banking population.
- This study will also be confined to a limited geographical area.
- Data is based on the perception of customers, which may involve personal bias.
- Unfortunately, time constraints restricted a more extensive data collection process.
- The study covers only selected small banks and new generation banks.

CONCLUSION AND RECOMMENDATIONS

1.1 Conclusion

The study infers that small banks and new generation banks are equally important in the banking ecosystem of India. While small banks retain customer loyalty through personalized services based on relationships and trust, new generation banks have dominated with speed, digital platforms, and automated service delivery. The metamorphosing banking customer now seeks a mix of human touch and digital convenience, and hence, banks must adopt a hybrid service approach.

1.2 Recommendations

- Small banks are advised to invest in improving both their digital infrastructure and mobile banking services.
- New-generation banks should strengthen their personalized customer support systems.
- Transparency in service charge disclosure needs to be made mandatory.
- Customer awareness programs regarding digital banking should be implemented, particularly for senior citizens.
- Banks should combine technology with strategies for relationship management to ensure long-term customer loyalty.

REFERENCES

- Parasuraman, A., Zeithaml, V. A., & Berry, L. L. (1988). SERVQUAL: A multiple-item scale for measuring consumer perceptions of service



quality. *Journal of Retailing*, 64(1)

- Rao, M., & Sharma, K. (2017). Service quality and customer satisfaction in private sector banks. *Asian Journal of Management Research*, 7(3)
- Singh, P. (2019). Customer perception towards cooperative banks in rural India. *Indian Journal of Commerce and Management Studies*, 10(1)
- Kumar, R., & Bansal, S. (2020). Customer satisfaction towards digital banking services in India. *International Journal of Banking and Finance*, 8(2)
- Reserve Bank of India. (2023). *Report on Trend and Progress of Banking in India*. RBI Publications.