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Financial and Behavioral Determinants of Customer Satisfaction in Nepalese Savings and Credit Cooperatives

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Abstract

A cooperative is a non-profit motive community organization and businesses owned and managed by the people who use their services, get involved in their lives there, or some benefit from them. Cooperatives in Nepal offer a wide range of savings and credit, insurance, and non-financial services. Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility, and caring for others. Customer satisfaction has become important due to the increase in competition. This study aims to assess customer satisfaction with saving and credit cooperatives in Kathmandu. The study adopted a descriptive and causal-comparative research design to achieve the research objective. The survey targeted customers of the savings & credit co-operatives operating in the Kathmandu district as the population. The study selects 384 respondents by using a judgmental sampling technique. The primary data was collected from a questionnaire survey with a 5-point Likert scale. Questionnaires were distributed through Google Forms and print questionnaires. The data has been analyzed by applying descriptive statistics (frequencies, percentage, mean, Standard deviation), and inference statistics (correlation, and regression) to test the hypothesis of the study. The result shows that all the independent and dependent variables are associated with each other. The result found that there is a significant impact of study variables (location, employee behavior, interest rates, saving options, and loan terms) on customer satisfaction.

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1. Background of the Study

Customer satisfaction has become a key determinant of success in financial institutions, including Saving and Credit Cooperatives (SCCs). These member-driven organizations play an essential role in fostering financial inclusion and economic well-being, particularly in developing economies like Nepal. SCCs provide a range of financial services, including savings, credit, insurance, and non-financial services, catering primarily to low- and middle-income households. Given their community-based operational model, SCCs emphasize democratic governance, equitable participation, and mutual benefits (Department of Cooperatives, 2023). However, despite their contributions, ensuring sustained customer satisfaction remains a critical challenge in the face of increasing competition from commercial banks and microfinance institutions (Basnet & Thapa, 2023).

In Nepal, SCCs have flourished under the legal framework established by the Cooperative Act of 1992, which facilitated their growth and formalization. With more than 30,000 registered cooperatives, SCCs constitute a significant segment of Nepal's financial sector (Department of Cooperatives, 2023). Urban centers such as Kathmandu have witnessed a rapid proliferation of SCCs, catering to diverse financial needs ranging from savings mobilization to credit disbursement. The personalized services and accessibility of SCCs have made them a preferred choice for many urban residents, including salaried professionals, small business owners, and informal sector workers (Shrestha & Koirala, 2023). However, their ability to maintain and enhance customer satisfaction amid growing financial alternatives remains an area of concern.

Research has identified several key factors influencing customer satisfaction in financial institutions, including interest rates, loan terms, employee behavior, and service offerings such as saving options (Fornell et al., 1996; Mohamad et al., 2020). Interest rates have been recognized as a crucial determinant, influencing borrowing costs and savings returns, thus shaping customer financial decisions (Amin et al., 2013). Similarly, the availability and diversity of saving options significantly affect satisfaction levels by catering to the varied needs of members (Liu & Ji, 2018). Additionally, the location of SCCs and their accessibility play a crucial role, particularly in geographically dispersed regions where ease of access impacts service utilization (Kotler et al., 2005). Employee behavior, including professionalism, communication, and customer service orientation, has also been identified as a major factor influencing customer trust and loyalty (Sweeney & Swait, 2008).

Despite extensive literature on customer satisfaction in financial institutions, research focusing specifically on SCCs, particularly in the Nepalese context, remains limited. Existing studies have examined individual factors such as interest rates and service quality (Barth & Kasper, 2013), but there is a lack of comprehensive research exploring the interplay of multiple factors—interest rates, saving options, location, employee behavior, and loan terms—on customer satisfaction in SCCs. Furthermore, the role of employee behavior in shaping customer perceptions and trust in cooperatives remains underexplored, despite its significance in fostering long-term relationships (Bester et al., 2015).

Given these research gaps, this study seeks to analyze the relationship between key service attributes and customer satisfaction in SCCs operating in Kathmandu, Nepal. By examining how interest rates, saving options, location, loan terms, and employee behavior collectively influence customer satisfaction, the study aims to provide valuable insights for cooperative managers and policymakers. Understanding these dynamics will enable SCCs to enhance service delivery, improve customer retention, and ensure long-term sustainability in a competitive financial environment. The findings of this research will contribute to the existing body of knowledge on cooperative financial services and offer practical implications for improving customer-centric strategies in SCCs.The study aims to address critical issues concerning customer satisfaction in saving and credit cooperatives in Kathmandu. The specific objectives are:

To assess the relationship between interest rates, saving options, location, loan terms, employee behaviors, and customer satisfaction in savings and Credit Cooperatives (SCCs) in Nepal.

To examine the effect of interest rates, saving options, location, loan terms, and employee behaviors on customer satisfaction in savings and Credit Cooperatives (SCCs) in Nepal.

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2. Conceptual Framework

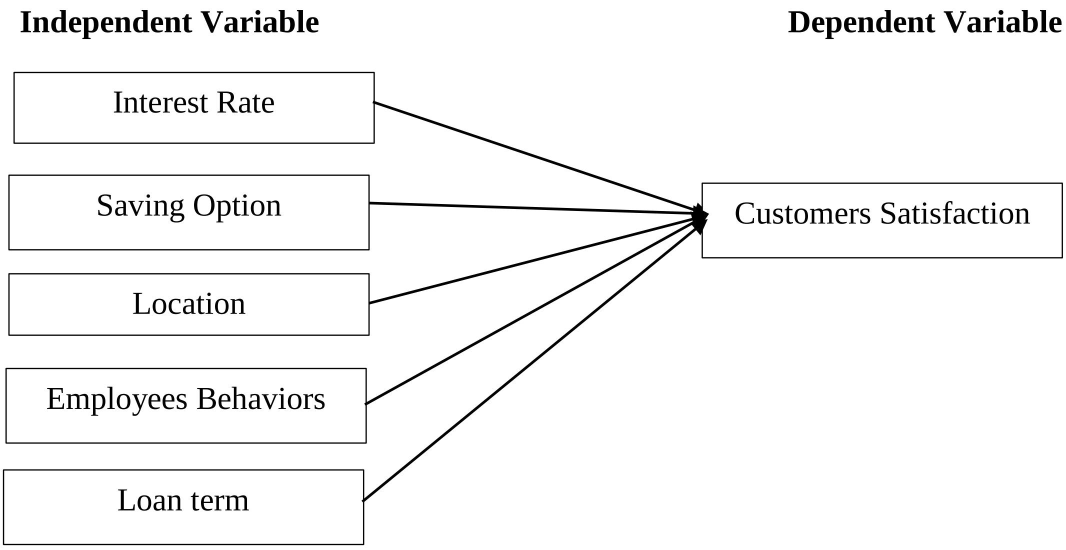

Figure 1: Conceptual Framework of the study

The study has presented the inter-relationship of study variables from the pictorial diagram (Figure 1). The diagram shows the relationship between the independent variables and the dependent variable. Here, the saving option, location, employee behavior, and loan term are independent variables, and customer satisfaction is the dependent variable. The objective of this study, it assumed the effect of these independent variables on customer satisfaction.

3. Research Hypothesis

The study has prepared five alternative research hypotheses based on the specific objectives and conceptual ideas presented in Figure 1:

H1: There is a significant relationship and impact of interest rate on customer satisfaction in Savings and Credit Cooperatives in Nepal.

H2: There is a significant relationship and impact of the saving options on customer satisfaction in Saving and Credit Cooperatives in Nepal.

H3: There is a significant relationship and impact of location on customer satisfaction in Saving and Credit Cooperatives in Nepal.

H4: There is a significant relationship and impact of employees' behaviors on customer satisfaction in savings and Credit Cooperatives in Nepal.

H5: There is a significant relationship and impact of loan facilities on customer satisfaction in savings and Credit Cooperatives in Nepal.

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4. Literature Review

Customer satisfaction is crucial for the sustainability and growth of saving and credit cooperatives (SCCs). It reflects how well customer expectations are met through service delivery, influencing retention, loyalty, and operational success (Kotler & Keller, 2021; Adhikari, 2022). Several theoretical models help explain customer satisfaction in SCCs.

The SERVQUAL model (Parasuraman et al., 1988) identifies five key service quality dimensions: tangibles, reliability, responsiveness, assurance, and empathy that influence satisfaction. In SCCs, factors like employee behavior, loan terms, and interest rates align with responsiveness and empathy, while branch location relates to tangibility. This model helps SCCs assess and improve service quality.

The expectancy disconfirmation theory (Oliver, 1980) posits that customer satisfaction arises from the gap between expectations and perceived performance. In SCCs, competitive interest rates, saving options, and loan terms shape expectations. When actual service delivery meets or exceeds these expectations, satisfaction increases; otherwise, dissatisfaction results. By integrating these theoretical perspectives, this study provides a comprehensive understanding of customer satisfaction in SCCs. The SERVQUAL model and expectancy-disconfirmation theory offer valuable insights for improving service quality, enhancing member experience, and ensuring long-term sustainability.

4.1 Empirical Literature

Customer satisfaction in saving and credit cooperatives (SCCs) is influenced by multiple factors, including interest rates, saving options, location, employee behavior, and loan terms. Several empirical studies have focused on customer satisfaction in SCCs within Nepal. Basnet and Thapa (2023) identified service quality, interest rates, and branch accessibility as primary determinants of satisfaction. Adhikari (2022) emphasized the role of employee behavior and transparency in fostering trust among SCC members. Koirala (2023) highlighted the need for innovative financial products and governance reforms to align with evolving customer expectations.

Interest Rates and Customer Satisfaction: Interest rates significantly impact customer satisfaction in SCCs, as they determine the perceived value of financial services. Gupta et al.

(2019) found that customer satisfaction in Indian banks was highly correlated with competitive interest rates. Similarly, Wang and Zhao (2020) demonstrated that favorable interest rates positively influenced satisfaction levels in SCCs. Customers tend to prefer institutions that offer attractive interest rates on savings accounts and loans, as this enhances their financial benefits (Amin, 2009).

Saving Options and Customer Satisfaction: The variety and flexibility of saving options significantly contribute to customer satisfaction. Hannan et al. (2021) found that offering diverse savings products, such as fixed deposits and recurring deposits, enhanced customer satisfaction in cooperatives. Similarly, Yadav and Pathak (2021) revealed that customers prefer institutions that provide tailored financial products to meet individual goals. The availability of multiple saving options not only enhances customer experience but also fosters long-term loyalty (Sharma, 2016).

Location and Customer Satisfaction: Accessibility and geographic proximity play a crucial role in determining customer satisfaction in SCCs. Cheng et al. (2015) emphasized that customers value convenience, particularly in rural areas where banking options may be limited. Nawaz and Usman (2010) found that customers were more satisfied with financial institutions that provided easy access through strategically located branches or ATM networks. SCCs that expand their reach to underserved communities tend to experience higher satisfaction levels among their members.

Employee Behavior and Customer Satisfaction: The professionalism, courtesy, and responsiveness of employees are key determinants of customer satisfaction in SCCs. Ladhari (2009) highlighted that positive interactions between customers and employees foster trust and enhance overall satisfaction. The ability of SCC employees to understand customer needs and provide personalized service strengthens customer relationships and satisfaction levels (Hennig-Thurau et al., 2002).

Loan Terms and Customer Satisfaction: Flexible and transparent loan terms are crucial for customer satisfaction in SCCs. Research by Pasiouras and Tanna (2009) found that customers prefer loan products with favorable repayment terms and minimal fees. Ahmed et al. (2016) emphasized the importance of clarity in loan agreements, as customers are more satisfied when they understand the terms and conditions of their financial obligations. Zhao and Sadiq (2019)

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further noted that customized loan products tailored to borrowers' financial capabilities enhance satisfaction levels.

4.2 Research Gap

While a growing body of literature has explored customer satisfaction in the context of financial services, including savings and credit cooperatives (SCCs), significant gaps remain, particularly in emerging markets like Nepal. Prior studies have predominantly focused on individual factors such as interest rates, saving options, and employee behavior in the banking and financial services sectors (Amin et al., 2013; Fornell et al., 1996). However, limited research has examined the interaction and combined impact of key factors, interest rates, saving options, location, employee behaviors, and loan terms, on customer satisfaction specifically within the SCC sector (Bester et al., 2015). Furthermore, while existing literature emphasizes the importance of employee behavior in influencing customer satisfaction (Sweeney & Swait, 2008), there is a lack of empirical evidence on how employee behavior directly impacts customer satisfaction in the context of cooperatives, where community values and trust play a pivotal role. Additionally, while individual factors such as interest rates and loan terms have been explored in isolated contexts (Barth & Kasper, 2013), comprehensive studies that consider the interplay between these elements, particularly in developing countries like Nepal, remain scarce. Thus, a more integrated approach is required to assess how these factors collectively shape customer satisfaction in SCCs.

5. Research Methods used in the study

This study has adopted a descriptive and causal-comparative research design to examine customer satisfaction towards saving and credit cooperatives (SCCs) in Kathmandu. The descriptive design provides an overview of satisfaction levels, while the causal-comparative approach identifies cause-and-effect relationships between factors such as location, employee behavior, interest rates, savings options, and loan terms. The target population consists of SCC customers in Kathmandu, with 96 respondents selected using judgmental sampling to ensure relevance. Primary data was collected through structured questionnaires with a 5-point Likert scale, distributed via Google Forms and in print. Descriptive statistics (frequencies, percentages, means) and inferential analyses (correlation, regression, and coefficient of variation) were employed to analyze the data and test hypotheses.

The study has run the statistical test to check the reliability of the data. The Cronbach's Alpha test was done to ensure the internal consistency of the data. The statistical result is presented in Table 1.

Table 1: ***Reliability test***

	Cronbach's Alpha
Interest Rate	0.799
Saving Option	0.833
Location	0.660
Employees Behaviors	0.784
Loan term	0.822
Customer Satisfaction	0.919

Source: *Field Survey, 2024*

Cronbach's Alpha is studied to understand the reliability and validity of each question (Gliem & Gliem, 2003; Manandhar, 2022). Table 1 displays the reliability of the items. The Cronbach's Alpha values in Table 1 indicate the internal consistency and reliability of the measurement scales used in the study. A Cronbach's Alpha value above 0.7 is generally considered acceptable for reliability, while values above 0.8 indicate good reliability. Customer Satisfaction (0.919) has the highest reliability, indicating a strong internal consistency in measuring satisfaction levels. Saving Option (0.833) and Loan Term (0.822) also exhibit high reliability, suggesting that these factors are consistently assessed by the respondents. Interest Rate (0.799) and Employee Behavior (0.784) demonstrate acceptable reliability, indicating a reliable measurement of these constructs. Location (0.660) has the lowest reliability among the factors but remains within an acceptable range, though there may be some inconsistencies in responses. Overall, the reliability test confirms that the survey instrument used for measuring customer satisfaction and its determinants is statistically reliable, with most variables showing strong internal consistency.

6. Results and Analysis

Profile of Respondents

Table 2: Demographic

Gender	Frequency	Percent
Male	192	50
Female	192	50
Total	384	100

Age	Frequency	Percent
20-30 years	312	81.30
31-40 years	24	6.30
Above 40 years	48	12.50
Total	384	100

Marital status	Frequency	Percent
Unmarried	288	75
Married	96	25
Total	384	100

Location	Frequency	Percent
Kathmandu	276	71.90
Bhaktapur	108	28.10
Total	384	100

Education	Frequency	Percent
Below SLC/SEE	48	12.50
+2	108	28.10
Bachelor	288	59.40
Total	384	100

Source: *Field Survey, 2024*

In Table 2, the study consisted of 384 respondents, equally distributed between male (50%) and female (50%), ensuring gender balance. In terms of age distribution, the majority of respondents (81.3%) were between 20-30 years, followed by 12.5% above 40 years and 6.3% in the 31-40 years category. This indicates that younger individuals constitute the dominant group among the surveyed population. Regarding marital status, 75% of respondents were unmarried, while 25% were married, suggesting that saving and credit cooperative (SCC) users may be predominantly young and single individuals. In terms of geographical distribution, most respondents (71.9%) were from Kathmandu, while 28.1% were from Bhaktapur, indicating a higher concentration of SCC users in the capital city. Education-wise, the largest proportion of respondents (59.4%) had completed their bachelor's degree, followed by 28.1% with +2 (higher secondary) and 12.5% below SLC/SEE (secondary level). This suggests that the majority of SCC customers are relatively well-educated. Overall, the demographic profile indicates that SCC users are predominantly young, unmarried, and well-educated individuals from urban areas, particularly Kathmandu. This insight can help SCCs tailor their services to better meet the financial needs of this demographic.

Table 3: *Quality of Co-operative Service*

	Frequency	Percent
Best	192	50.00
Good	108	28.10
Average	84	21.90
Total	384	100

Source: *Field Survey, 2024*

The survey results in Table 3 indicate that 50% of respondents rated the quality of cooperative services as "Best", suggesting a high level of satisfaction among members. Additionally, 28.1% of respondents rated the services as "Good", while 21.9% considered them "Average". Overall, the findings highlight that a majority (78.1%) perceive the service quality positively (Best or Good), indicating that the co-operatives effectively meet customer expectations. However, the 21.9% rating it as "Average" suggests room for improvement in service delivery.

Table 4: *Descriptive Statistics*

	Mean	SD
Interest Rate	3.51	2.41
Saving Option	3.78	1.38
Location	3.47	2.05
Employees Behaviors	3.56	2.13
Loan term	3.43	3.22
Customer Satisfaction	3.88	4.32

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The descriptive statistics in Table 4 reveal key insights into customer satisfaction determinants in saving and credit cooperatives (SCCs). Customer satisfaction has the highest mean score (3.88) with the highest standard deviation (4.32), indicating variability in respondents' perceptions. Saving options (Mean = 3.78, SD = 1.38) and employee behaviors (Mean = 3.56, SD = 2.13) also show relatively high mean values, suggesting their importance in influencing satisfaction. Interest rates (Mean = 3.51, SD = 2.41) and loan terms (Mean = 3.43, SD = 3.22) have lower means and higher standard deviations, indicating mixed opinions among customers. Location (Mean = 3.47, SD = 2.05) shows moderate impact with some variability. Overall, the findings suggest that while all these factors contribute to customer satisfaction, variability in responses indicates differing customer expectations and experiences.

Table 5: *Correlation analysis*

	CS	IR	SO	L	EB	LT
CS	1					
IR	.770*	1				
SO	.748*	.686**	1			
L	.900**	.716*	.666*	1		
EB	.863*	.802*	.726*	.760*	1	
LT	.870**	.798**	.709**	.893**	.765**	1

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

The correlation analysis reveals significant relationships between customer satisfaction (CS) and the key factors: interest rate (IR), saving options (SO), location (L), employee behavior (EB), and loan terms (LT). Among these, location (L) exhibits the strongest correlation with CS ($r = .900$, $p < 0.01$), indicating that accessibility plays a crucial role in customer satisfaction. Loan terms (LT) and employee behavior (EB) also show strong positive correlations with CS ($r = .870$ and $r = .863$, respectively), suggesting that transparent loan policies and professional customer service significantly influence satisfaction. Interest rate (IR) and saving options (SO) are positively correlated with CS ($r = .770$ and $r = .748$, respectively), though their impact appears relatively lower compared to service-related factors.

Table 6: ***Regression Analysis***

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.394	0.942		2.54	0.013		
	Interest Rate	-0.039	0.118	-0.022	-0.328	0.044	0.265	3.771
	Saving Option	0.342	0.167	0.109	2.053	0.043	0.412	2.428
	Location	0.955	0.167	0.452	5.714	0.000	0.184	5.421
	Employees Behaviors	0.718	0.135	0.354	5.296	0.000	0.259	3.854
	Loan term	0.183	0.12	0.136	1.533	0.029	0.146	5.344
	F= 154.913							
	R2= 0.896							
	P=0.0000							

a Dependent Variable: Customer Satisfaction

The regression analysis indicates that the model explains a significant portion of the variance in customer satisfaction ($R^2 = 0.896$, $p < 0.05$), meaning 89.6% of customer satisfaction can be attributed to the independent variables. Among the predictors, location ($\beta = 0.452$, $p = 0.000$) and employee behaviors ($\beta = 0.354$, $p = 0.000$) have the strongest positive influence on customer satisfaction. Saving options ($\beta = 0.109$, $p = 0.043$) and loan terms ($\beta = 0.136$, $p = 0.029$) also have a significant positive effect, though weaker. However, interest rates show a negative and insignificant impact ($\beta = -0.022$, $p = 0.044$), suggesting that interest rates alone do not strongly drive satisfaction. The Variance Inflation Factor (VIF) values indicate potential multicollinearity, particularly for location (VIF = 5.421) and loan terms (VIF = 5.344), which should be considered when interpreting the results. Overall, the findings highlight that service-related factors like location, employee behavior, and saving options are more critical in driving customer satisfaction in SCCs than interest rates.

The results are based on regression analysis of primary data collected from 384 respondents who are currently involved in the cooperative by using a linear regression model.

$\hat{Y} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e_i$

Where,

$\hat{Y}$ = Dependent variable (Customer Satisfaction)

X_1 = Independent Variables (Interest Rate)

X_2 = Independent Variables (Saving Option)

X_3= Independent Variables (Location)

X_4= Independent Variables (Employees Behaviors)

X_5= Independent Variables (Loan term)

α = Constant

β_1 = (Beta value) Coefficient of slope of regression model

e_i= Error term

The above model is defined in the linear form of regression as below:
Therefore,

$\hat{Y}$= 2.394 - 0.039. $X1$ + 0.342.$X2$ + 0.955.$X3$+ 0.718.$X4$+ 0.183.$X5$+ei

The variance inflation factor (VIF) values of all predictors are less than 5, indicating no problem of multicollinearity in the model.

Table 7: ***Hypothesis test***

Hypothesises	Effect	P-value	Results
H1	Interest Rate – CS	0.044	Accepted
H2	Saving Option – CS	0.043	Accepted
H3	Location – CS	0.000	Accepted
H4	Employees Behaviors – CS	0.000	Accepted
H5	Loan term – CS	0.029	Accepted

The statistical result of the regression, the alternative hypothesis from H1 to H5 is accepted which indicates that there was a significant effect of all independent variables on customer satisfaction

7. Discussion

The findings of this study confirm that all five factors interest rate, saving options, location, employee behavior, and loan terms significantly influence customer satisfaction in saving and credit cooperatives (SCCs). These results align with both theoretical frameworks and empirical literature, emphasizing the importance of financial and service-related elements in shaping customer perceptions and experiences. The acceptance of H1 (Interest Rate – CS) supports previous research (Gupta et al., 2019; Wang & Zhao, 2020) highlighting that competitive interest rates attract customers by increasing the perceived value of savings and loans. However, its relatively lower impact compared to service-related factors suggests that customers prioritize other elements beyond just financial benefits.

The significance of H2 (Saving Option – CS) aligns with studies by Hannan et al. (2021) and

Yadav & Pathak (2021), which emphasize that diverse and flexible saving options enhance customer satisfaction. SCCs offering tailored financial products improve accessibility and meet individual financial needs, leading to greater member retention.

The strong impact of H3 (Location – CS) corroborates findings from Cheng et al. (2015) and Nawaz & Usman (2010), which suggest that geographical convenience is a key determinant of satisfaction. SCCs with strategically located branches ensure ease of access, reducing transactional burdens for members and enhancing the overall service experience. Similarly, H4 (Employee Behavior – CS) is a crucial determinant of customer satisfaction, as confirmed by Ladhari (2009). Courteous, knowledgeable, and responsive employees foster trust and long-term engagement with customers. Personalized service and professional assistance strengthen relationships, increasing satisfaction levels. Finally, H5 (Loan Term – CS) aligns with the work of Pasiouras & Tanna (2009) and Ahmed et al. (2016), highlighting that transparent and flexible loan terms contribute to customer satisfaction. Customers prefer clear and manageable repayment structures, which enhance financial security and reduce uncertainty.

From a theoretical perspective, these findings are supported by the SERVQUAL model (Parasuraman et al., 1988), which identifies reliability, responsiveness, and empathy as key service quality dimensions influencing customer satisfaction. Employee behavior, loan terms, and interest rates align with these dimensions, reinforcing the need for service-oriented improvements. Additionally, the expectancy-disconfirmation theory (Oliver, 1980) suggests that customer satisfaction arises when SCCs meet or exceed expectations. The significant relationships found in this study indicate that SCCs fulfilling customer expectations through financial and service-based factors achieve higher satisfaction levels.

8. Conclusion

This study confirms that interest rate, saving options, location, employee behavior, and loan terms significantly influence customer satisfaction in saving and credit cooperatives (SCCs). While financial factors like interest rates and loan terms remain important, service-related aspects such as employee behavior, saving options, and location play a more dominant role in shaping positive customer experiences.

The findings align with the SERVQUAL model, which highlights service quality dimensions like reliability and responsiveness, and the expectancy-disconfirmation theory, which explains how meeting or exceeding expectations drives satisfaction. SCCs that offer accessible locations, flexible financial products, transparent loan terms, and excellent customer service achieve higher customer retention and loyalty. Overall, SCCs should prioritize service quality, member-centric financial offerings, and operational improvements to enhance customer satisfaction and ensure long-term sustainability.

9. Implications

The findings of this study provide valuable insights for saving and credit cooperatives (SCCs) to enhance customer satisfaction and ensure long-term sustainability. SCCs should focus on service quality enhancement by improving employee behavior through customer service training and fostering trust through courteous and responsive interactions. Offering flexible financial products, such as diverse saving options and transparent loan terms, can better meet members' financial needs, leading to higher retention. Strategic location planning, including branch expansion and digital banking services, can improve accessibility and reduce transactional burdens. While competitive interest rates remain important, SCCs should balance them with superior service quality to attract and retain customers. Additionally, aligning financial offerings and service delivery with customer expectations using frameworks like the SERVQUAL model and expectancy-disconfirmation theory can further enhance satisfaction and loyalty. Implementing these strategies will help SCCs improve customer experience, strengthen trust, and achieve sustainable growth in the cooperative sector in Nepal.

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