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The Role of Service Quality and Bank Reputation in Building Customer Loyalty: The Mediating Effect of Customer Satisfaction

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ABSTRACT

Purpose – This study examines the effects of service quality and bank reputation on customer loyalty, with customer satisfaction as a mediating variable, among customers of Bank Central Asia (BCA), Gatot Subroto Barat Branch, Denpasar. Methodology/approach – A quantitative causal-associative design was employed. The population consisted of 9,800 customers, from which 100 respondents were selected using random sampling and the Slovin formula. Primary data were collected through a Likert-scale questionnaire and analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS) with SmartPLS 4.0. Findings – Service quality has a positive and significant direct effect on customer loyalty, whereas bank reputation does not have a significant direct effect. Both service quality and bank reputation positively and significantly influence customer satisfaction. Customer satisfaction also has a positive and significant effect on customer loyalty and emerges as the strongest determinant in the model. Furthermore, customer satisfaction significantly mediates the relationships between service quality and customer loyalty, and between bank reputation and customer loyalty. The mediation is partial for service quality and full for bank reputation. Novelty/value – This study demonstrates that a strong bank reputation alone is insufficient to create customer loyalty unless it is translated into customer satisfaction. It also clarifies the distinct mediating mechanisms through which service quality and bank reputation build loyalty in a branch-level banking context.

INTRODUCTION

The banking industry has become increasingly competitive due to rapid technological development, the expansion of digital banking services, and changes in customer expectations. Customers are now able to compare banking products and services more easily, conduct transactions through multiple channels, and switch to competing financial institutions when their expectations are not fulfilled. Under these conditions, customer loyalty represents a strategic asset because loyal customers are more likely to maintain their relationships with the bank, use additional products and services, recommend the bank to others, and resist competitors' offers. Consequently, banks must develop sustainable customer relationships rather than rely solely on transactional advantages. This issue provides the basis for examining customer loyalty at Bank Central Asia (BCA), Gatot Subroto Barat Branch, Denpasar, particularly through service quality, bank reputation, and customer satisfaction.

The banking sector in Bali has demonstrated relatively strong growth. The Financial Services Authority reported that third-party funds in Bali grew by 13.85% year-on-year in December 2024, reflecting favourable public confidence in the banking industry. However, this industry-level growth was not fully reflected in the performance of BCA Gatot Subroto Barat Branch. Although the branch's total deposits increased from IDR 976.15 billion in 2021 to approximately IDR 1.31 trillion in 2024, its annual growth rate declined consistently from 12% in 2022 to 10% in 2023 and 8% in 2024. Thus, the branch's deposit growth in 2024 remained substantially below the banking industry's average growth in Bali. This condition indicates a potential problem in maintaining and strengthening customer relationships. Furthermore, a preliminary survey involving 30 customers found complaints regarding service waiting times and showed that 40% of respondents were interested in transferring part of their funds to competing banks or digital banks offering more convenient features and competitive benefits.

Service quality is one of the principal factors that may determine customer loyalty in the banking sector. It reflects a bank's ability to deliver services accurately, promptly, reliably, securely, and empathetically. In banking services, customers evaluate not only the final outcome of a transaction but also the process through which the service is delivered. The widely adopted service-quality dimensions comprise tangibles, reliability, responsiveness, assurance, and empathy. When these dimensions are consistently fulfilled, customers are more likely to perceive that the bank understands their needs, protects their interests, and provides dependable solutions. Previous studies have generally demonstrated that service quality contributes to customer satisfaction and loyalty because positive service experiences reduce perceived risk and strengthen customers' willingness to continue using a bank's services (Arianto & Nirwana, 2021; Jeany & Siagian, 2020; Satria & Diah Astarini, 2023; Sriyanto et al., 2024; Susilawati, 2025).

Bank reputation constitutes another important antecedent of customer responses. Reputation represents customers' collective assessment of a bank's credibility, reliability, financial soundness, social standing, and ability to fulfil its promises. A favourable reputation may reduce uncertainty because customers tend to consider reputable banks safer and more trustworthy. In the financial service sector, where customers entrust institutions with their funds and personal information, reputation may influence their initial choice and willingness to establish a long-term relationship. Previous research has reported a positive relationship between bank reputation and customer loyalty, indicating that a strong reputation can increase trust and reinforce customers' commitment to a bank (Alwahidin et al., 2021; Fauzia et al., 2024). Nevertheless, reputation may function primarily as an initial attraction and may not automatically produce loyalty unless customers experience the value represented by that reputation during their interactions with the bank.

Customer satisfaction is therefore essential for explaining how service quality and bank reputation are transformed into loyalty. Satisfaction refers to customers' evaluation of whether the actual banking experience meets or exceeds their prior expectations. From the perspective of the **Commitment-Trust Theory of Relationship Marketing**, sustainable relationships are developed through trust and commitment rather than through isolated transactions (Morgan & Hunt, 1994); (Setini et al., 2026). In this framework, satisfactory experiences provide an affective and psychological foundation for trust, while trust encourages customers to maintain their commitment to the bank. Service quality represents customers' direct functional experience, whereas reputation represents a broader institutional evaluation. Customer satisfaction may connect both antecedents with loyalty by converting positive service and reputational perceptions into favourable emotional evaluations and long-term relational commitment. Previous empirical studies, however, have produced inconsistent findings concerning these relationships. Studies conducted in several banking contexts found that service quality had a positive and significant influence on customer loyalty, while other studies reported that service quality did not directly affect loyalty (Asan et al., 2022; Jeany & Siagian, 2020; Rafli & Yunanto, 2024). Similar inconsistencies have been identified in studies of bank reputation. Some studies demonstrated that reputation significantly increased customer loyalty, whereas others found that reputation did not have a significant direct effect on loyalty or trust, particularly in technology-based banking services (Adelia & Kustiawan, 2025; Alwahidin et al., 2021; Susilawati, 2025; Setini et al., 2026). Research on customer satisfaction has also generated different conclusions. Although customer satisfaction is commonly regarded as a major predictor of loyalty, some findings indicate a significant relationship, while others demonstrate that satisfaction alone may not be sufficient to produce loyal behaviour (Asan et al., 2022; Handayani & Prasetya, 2024).

These inconsistencies suggest that the direct relationships between service quality, bank reputation, and customer loyalty cannot fully explain how loyalty is established. Previous studies have often examined service quality or reputation separately, focused primarily on their direct effects, or employed other mediating variables. Consequently, limited empirical evidence is available regarding the simultaneous effects of service quality and bank reputation on loyalty through customer satisfaction, particularly at the branch level of a major commercial bank experiencing a discrepancy between industry growth and branch deposit growth. The existing empirical gap indicates the need to investigate customer satisfaction as an explanatory mechanism that transforms functional service performance and institutional reputation into long-term customer loyalty. The research framework in the thesis similarly identifies inconsistent direct relationships and emphasises the need for a mediating variable to explain the complete mechanism through which loyalty is created.

Therefore, the novelty of this study lies in integrating two distinct sources of customer evaluation—service quality as a functional and experiential factor and bank reputation as an institutional and symbolic factor—within a single mediation model based on the Commitment-Trust Theory of Relationship Marketing. Unlike studies that focus exclusively on direct relationships, this study differentiates the mechanism through which customer satisfaction mediates the effects of service quality and bank reputation on customer loyalty. It also provides branch-level evidence from the Indonesian banking sector, where strong corporate reputation and positive industry growth do not necessarily guarantee equivalent customer loyalty at the operational level. Theoretically, this model clarifies the affective role of satisfaction in connecting customers' functional and reputational evaluations with trust and long-term commitment.

Accordingly, this study aims to examine and analyse: (1) the effect of service quality on customer loyalty; (2) the effect of bank reputation on customer loyalty; (3) the effects of service quality and bank reputation on customer satisfaction; (4) the effect of customer satisfaction on customer loyalty; (5) the mediating role of customer satisfaction in the relationship between service quality and customer loyalty; and (6) the mediating role of customer satisfaction in the relationship between bank reputation and customer loyalty among customers of BCA Gatot Subroto Barat Branch in Denpasar.

The Commitment-Trust Theory of Relationship Marketing

The Commitment-Trust Theory of Relationship Marketing, developed by Morgan and Hunt (1994), provides the primary theoretical foundation for explaining the formation of long-term relationships between banks and their customers. The theory proposes that relationship marketing becomes successful when the parties involved develop trust and relationship commitment. Trust reflects confidence in the reliability and integrity of an exchange partner, whereas commitment represents a persistent desire to maintain a valuable relationship. Together, these relational elements reduce uncertainty, discourage opportunistic behaviour, and strengthen customers' willingness to continue interacting with a service provider. In the banking industry, relationship continuity is especially important because customers entrust banks with financial assets, personal information, and long-term financial decisions. Customer loyalty can therefore be understood as an outcome of a successful relational process rather than merely the repetition of transactions. Loyal customers maintain their accounts, use additional banking products, recommend the bank to other people, and demonstrate resistance to competing offers. Such behaviours indicate that the relationship has developed beyond short-term transactional considerations into a more stable relational commitment. This study extends the logic of the Commitment-Trust Theory by positioning service quality and bank reputation as two distinct antecedents of the bank–customer relationship. Service quality represents customers' direct and functional evaluation of their interactions with the bank, while bank reputation represents a broader institutional and symbolic evaluation. Service quality demonstrates whether the bank can perform its operational promises, whereas reputation signals whether the institution is credible, financially sound, responsible, and trustworthy. Customer satisfaction is subsequently positioned as an evaluative mechanism that translates these functional and institutional assessments into customer loyalty. Satisfaction indicates that customers' actual experiences have met or exceeded their prior expectations. When positive service experiences and favourable reputational perceptions are confirmed through satisfactory interactions, customers are more likely to trust the bank and develop a commitment to maintaining the relationship. Thus, customer satisfaction provides an affective bridge through which service quality and bank reputation may influence customer loyalty.

Customer Loyalty

Customer loyalty refers to a deeply held commitment to continue purchasing or using a preferred product or service consistently in the future despite situational influences and marketing efforts that may encourage switching behaviour (Oliver, 1999; Susilawati, 2025). Within banking services, loyalty is not limited to the frequency of transactions. It also encompasses customers' psychological attachment, willingness to recommend the bank, intention to use additional products, and resistance to competing financial institutions. Customer loyalty is strategically important because loyal customers provide a relatively stable source of deposits and income, reduce customer-acquisition costs, and increase opportunities for cross-selling. Loyal customers also tend to share positive experiences with family members, colleagues, and other potential customers. Consequently, customer loyalty contributes not only to customer retention but also to the long-term sustainability and profitability of a bank (Alwahidin et al., 2021). Following Asan et al. (2022), customer loyalty can be reflected through five behavioural and attitudinal manifestations: repeat purchase, positive word of mouth, immunity to competitors, emotional commitment, and cooperation. Repeat purchase refers to customers' intention to continue saving and conducting transactions with the same bank. Positive word of mouth represents their willingness to recommend the bank to others. Immunity indicates resistance to competing offers, while emotional commitment reflects a strong desire to maintain the banking relationship. Cooperation is demonstrated through customers' willingness to use other products and services offered by the bank.

Service Quality

Service quality is the extent to which the services delivered by an organisation meet or exceed customer expectations (Arianto & Nirwana, 2021). It represents a dynamic evaluation involving physical facilities, employees, service procedures, technology, and the overall environment in which the service is delivered. In banking, customers evaluate not only the completion of a transaction but also the speed, accuracy, security, consistency, and personal attention associated with the service process. Service quality is commonly measured using five SERVQUAL dimensions: tangibles, reliability, responsiveness, assurance, and empathy. Tangibles refer to physical facilities, equipment, communication materials, and employee appearance. Reliability concerns the bank's ability to perform promised services accurately and consistently. Responsiveness reflects employees' willingness and readiness to assist customers promptly. Assurance relates to employee competence, courtesy, security, and the ability to inspire confidence. Empathy concerns individual attention and the bank's ability to understand specific customer needs (Sriyanto et al., 2024).High-quality service reduces perceived risk and demonstrates that the bank is capable of fulfilling its promises. Accurate transactions, responsive complaint handling, secure systems, and empathetic employees may encourage customers to maintain their relationship with the bank. Previous studies have reported positive relationships between service quality and customer loyalty (Jeany & Siagian, 2020; Susilawati, 2025; Taqi Ardabilli et al., 2024). However, other studies have found that service quality does not directly influence loyalty unless customers first experience satisfaction (Arianto & Nirwana, 2021; Firmansyah & Mahfudz, 2023; Phi & Huong, 2023; Rafli & Yunanto, 2024). These inconsistent findings indicate that the mechanism connecting service quality and loyalty requires further investigation.

Bank Reputation

Bank reputation refers to the collective assessment of a bank's credibility, integrity, performance, and ability to fulfil its commitments. It develops over time through customers' direct experiences, public communication, financial performance, social responsibility, and information circulated among stakeholders (Fombrun et al., 1990; Susilawati, 2025). Unlike service quality, which is assessed primarily through direct service encounters, reputation represents a broader perception of the institution. Reputation is an intangible strategic resource because it can differentiate a bank from its competitors and reduce uncertainty in customers' decision-making. Customers may not be able to assess the financial strength, risk management, or future performance of a bank before establishing a relationship. Under these circumstances, reputation functions as a signal of institutional quality and credibility. A reputable bank is generally perceived as safer, more dependable, and more capable of protecting customers' financial interests.

Bank reputation can be evaluated through credibility, financial performance, superiority, social responsibility, and emotional appeal. Credibility concerns whether the bank is widely recognised and trusted. Financial performance represents perceptions of professional management and financial stability. Superiority reflects the bank's distinctive advantages over competitors. Social responsibility concerns the institution's contribution to society, while emotional appeal represents customers' pride and positive feelings associated with the bank. Previous findings regarding the effect of reputation on customer loyalty remain inconclusive. Alwahidin et al. (2021), Rahmasari and Wahyudi (2021), Kurhayadi et al. (2022), and Fauzia et al. (2024) reported that reputation positively influences customer loyalty. Conversely, Barus et al. (2023) and Susilawati (2025) found that reputation did not have a significant direct effect on loyalty. This inconsistency suggests that reputation may create favourable expectations and initial trust but may not produce sustained loyalty unless customers personally experience the value represented by that reputation.

Customer Satisfaction

Customer satisfaction refers to an emotional and cognitive evaluation resulting from a comparison between perceived performance and prior expectations. Customers experience satisfaction when service performance meets their expectations and experience a higher level of satisfaction when performance exceeds those expectations (Arianto & Nirwana, 2021; Asan et al., 2022). Conversely, performance below expectations generates dissatisfaction and increases the possibility of customer switching. In banking services, customer satisfaction may emerge from accurate transactions, convenient facilities, secure systems, rapid responses, personalised attention, effective complaint resolution, and confidence in the institution. It can be reflected through expectation confirmation, positive feelings, satisfaction with particular service attributes, evaluation of the overall experience, and satisfaction with the bank's handling of customer problems. Customer satisfaction is important because it transforms a favourable service evaluation into a stronger relational response. A customer may recognise that a bank has modern facilities or a strong corporate reputation but may not remain loyal unless these attributes result in a satisfactory personal experience. Satisfaction therefore connects customers' rational assessments with emotional attachment and relationship commitment. Most empirical studies have found that customer satisfaction positively influences customer loyalty (Elsania & Sumantri, 2024; Handayani & Prasetya, 2024; Jeany & Siagian, 2020; Satria & Diah Astarini, 2023). Nevertheless, several studies have reported insignificant relationships (Arianto & Nirwana, 2021; Asan et al., 2022). These mixed findings indicate that satisfaction should be examined both as a direct determinant of loyalty and as a mechanism that mediates the effects of service quality and bank reputation.

Hypothesis Development

Service Quality and Customer Loyalty

Consistent and dependable services demonstrate the bank's competence and concern for its customers. When banking transactions are accurate, employees respond promptly, and customer information is protected, customers have fewer reasons to switch to another institution. Positive service experiences may also strengthen confidence in the bank and encourage repeat transactions, recommendations, and resistance to competitors. Empirical findings generally support a positive relationship between service quality and customer loyalty (Jeany & Siagian, 2020; Susilawati, 2025; Taqi Ardabilli et al., 2024). Although several studies have reported an

insignificant direct relationship, these differences may be attributable to variations in service context, customer characteristics, digital-service adoption, and the presence of mediating variables. Accordingly, the following hypothesis is proposed:
H1: Service quality has a positive and significant effect on customer loyalty.

Service Quality and Customer Satisfaction

Service quality represents the performance that customers compare with their expectations. Reliable systems, responsive employees, secure transactions, appropriate facilities, and individual attention decrease the discrepancy between expected and perceived service. When perceived performance equals or exceeds expectations, customers are likely to evaluate the banking experience positively. Previous studies consistently demonstrate that service quality is an important determinant of customer satisfaction (Sani et al., 2024; Satria & Diah Astarini, 2023; Hidayat et al., 2024). In the context of BCA Gatot Subroto Barat Branch, improvements in both physical and interpersonal service dimensions are therefore expected to increase customer satisfaction.

H2: Service quality has a positive and significant effect on customer satisfaction.

Bank Reputation and Customer Loyalty

A favourable bank reputation communicates credibility, integrity, and financial stability. These perceptions reduce uncertainty and increase customers' confidence that the bank can protect their funds and fulfil its obligations. Customers who consider a bank reliable and socially respected may be more willing to maintain their accounts, use additional products, and recommend the institution.

Previous studies have identified a positive association between reputation and loyalty (Alwahidin et al., 2021; Fauzia et al., 2024; Rahmasari & Wahyudi, 2021). Nevertheless, the presence of contradictory findings indicates that this relationship requires additional empirical examination, particularly at the branch level.
H3: Bank reputation has a positive and significant effect on customer loyalty.

Bank Reputation and Customer Satisfaction

Bank reputation provides customers with information about the institution before and during their service relationship. A bank perceived as credible, financially stable, socially responsible, and professionally managed generates a sense of security and confirms that customers have selected an appropriate financial institution. Such confirmation can reduce perceived risk and contribute to a favourable emotional evaluation. Sugiat et al. (2023) and Nur et al. (2023) found that corporate reputation or bank image positively influenced customer satisfaction. Reputation may therefore provide both cognitive assurance and emotional pride, which enhance the overall evaluation of the banking experience.

H4: Bank reputation has a positive and significant effect on customer satisfaction.

Customer Satisfaction and Customer Loyalty

Satisfaction represents the cumulative evaluation of customers' experiences with a bank. Repeated satisfactory experiences strengthen confidence that the bank will continue fulfilling customer expectations. This confidence encourages relationship commitment, repeat transactions, positive recommendations, and resistance to competing offers. Previous studies have generally demonstrated that customer satisfaction is a significant predictor of customer loyalty (Elsania & Sumantri, 2024; Handayani & Prasetya, 2024; Jeany & Siagian, 2020; Satria & Diah Astarini, 2023). Therefore, customers who are satisfied with their overall experience at BCA Gatot Subroto Barat Branch are expected to demonstrate stronger loyalty.
H5: Customer satisfaction has a positive and significant effect on customer loyalty.

The Mediating Role of Customer Satisfaction in the Relationship between Service Quality and Customer Loyalty

Service quality can influence loyalty directly by demonstrating the bank's operational competence. However, service quality is more likely to produce enduring loyalty when customers interpret the service experience as satisfying. Tangible facilities, reliable systems, responsive employees, assurance, and empathy initially form customers' functional evaluations. Satisfaction then converts these evaluations into a positive emotional response that strengthens relationship commitment. Studies by Firmansyah and Mahfudz (2023), Satria and Diah Astarini (2023), Rafli and Yunanto (2024), and Hidayat et al. (2024) indicate that customer satisfaction mediates the relationship between service quality and loyalty. Thus, customer satisfaction is expected to explain how operational service performance becomes a long-term relational outcome.

H6: Customer satisfaction positively and significantly mediates the effect of service quality on customer loyalty.

The Mediating Role of Customer Satisfaction in the Relationship between Bank Reputation and Customer Loyalty

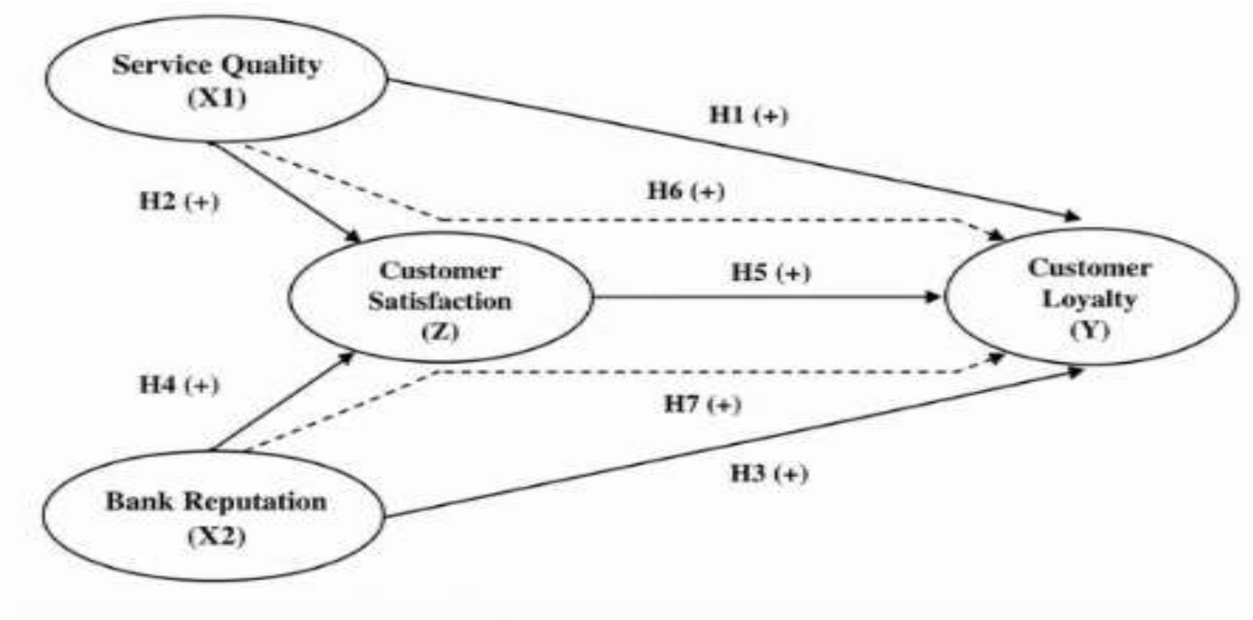
Reputation creates positive expectations regarding the bank's credibility, financial stability, and integrity. Nevertheless, these expectations need to be validated through customers' actual experiences. A strong reputation may attract customers and establish initial confidence, but loyalty is likely to develop only when the bank's performance confirms its public image and generates satisfaction. Previous studies have shown that customer satisfaction can transmit the positive effect of corporate reputation to customer loyalty (Khan et al., 2022; Sugiat et al., 2023). In the banking context, Nur et al. (2023) similarly demonstrated that favourable institutional perceptions contribute to loyalty through positive customer evaluations. Satisfaction therefore functions as the mechanism that converts an institutional promise into a personally validated and enduring relationship.

H7: Customer satisfaction positively and significantly mediates the effect of bank reputation on customer loyalty.

Conceptual Framework

Based on the theoretical arguments and empirical findings, the research model positions service quality and bank reputation as exogenous variables, customer satisfaction as a mediating variable, and customer loyalty as the endogenous variable. The model examines the direct effects of service quality and bank reputation on customer satisfaction and customer loyalty, the direct effect of customer satisfaction on loyalty, and the indirect effects of service quality and bank reputation on loyalty through customer satisfaction.

Figure 1. Conceptual Framework



Source: Research data processed with SmartPLS, 2026.

METHOD

This study employed a quantitative approach with an explanatory causal research design to examine the relationships between service quality and bank reputation on customer loyalty, with customer satisfaction as a mediating variable. The research model was developed based on the Commitment-Trust Theory of Relationship Marketing proposed by Morgan and Hunt (1994), which emphasizes the importance of trust and commitment in establishing long-term customer relationships. The study was conducted at PT Bank Central Asia (BCA), Gatot Subroto Barat Branch, Denpasar City, Indonesia, with individual customers who had experience using banking services as the unit of analysis. The population consisted of 9,800 BCA customers, and the sample size was determined using the Slovin formula with a 10% margin of error, resulting in 100 respondents selected through simple random sampling. Data were collected using a structured questionnaire based on previous studies, with all measurement items assessed using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Service quality (X1) was measured through five SERVQUAL dimensions, namely tangibles, reliability, responsiveness, assurance, and empathy, while bank reputation (X2) was assessed through credibility, financial performance, superiority, social responsibility, and emotional appeal. Customer satisfaction (Z) was measured through expectation confirmation, positive feelings, satisfaction with service attributes, overall evaluation, and satisfaction with complaint handling, whereas customer loyalty (Y) was evaluated through repeat purchase intention, positive word of mouth, resistance to competitors, emotional commitment, and cooperation. Data analysis was performed using descriptive and inferential statistical techniques through Structural Equation Modeling–Partial Least Squares (SEM-PLS) with SmartPLS 4.0. The analysis involved two stages: the measurement model evaluation (outer model), which assessed construct validity and reliability through outer loading, Average Variance Extracted (AVE), discriminant validity using cross-loading and Fornell-Larcker criteria, and reliability testing using Cronbach's Alpha and Composite Reliability; and the structural model evaluation (inner model), which examined the relationships among constructs through R^2, Q^2, f^2, path coefficients, and bootstrapping procedures. The mediation effect of customer satisfaction was tested through indirect effect analysis to determine its role in explaining the relationship between service quality and bank reputation on customer loyalty.

RESULT AND DISCUSSION

Respondent Characteristics

This study involved 100 respondents who were customers of PT Bank Central Asia (BCA) Gatot Subroto Barat Branch, Denpasar City. The characteristics of respondents were analysed based on gender, age, occupation, and length of being a customer. The distribution of respondents shows that female customers represented 51% of the respondents, while male customers represented 49%. Based on age characteristics, most respondents were between 26–30 years old (35%), followed by respondents aged 31–35 years (30%). Regarding occupation, the majority of respondents were private employees (59%), followed by entrepreneurs (24%) and civil servants (15%). Based on the length of customer relationships, most respondents had been customers for 1–5 years (52%), followed by customers who had maintained relationships for more than five years (41%). These characteristics indicate that respondents represent customers with relatively mature banking experiences. The dominance of customers with medium and long-term relationships provides an appropriate basis for evaluating perceptions of service quality, bank reputation, satisfaction, and loyalty. The distribution of respondents is presented in Table 1.

Table 1. Respondent Characteristics

Characteristics	*Category*	*Frequency*	*Percentage (%)*
Gender	Male	49	49
	Female	51	51
Age	20–25 years	15	15
	26–30 years	35	35
	31–35 years	30	30
	>35 years	20	20
Occupation	Private employee	59	59
	Entrepreneur	24	24
	Civil servant	15	15
	Others	2	2
Length of customer relationship	<1 year	7	7
	1–5 years	52	52
	>5 years	41	41

Table 1 shows respondent profile indicates that most customers had sufficient experience with banking services. The dominance of respondents with 1–5 years and more than five years of relationship with BCA provides an appropriate basis for evaluating perceptions of service quality, bank reputation, customer satisfaction, and loyalty.

Measurement Model Evaluation (Outer Model)

The measurement model evaluation was conducted to assess construct validity and reliability. The evaluation included convergent validity through outer loading and Average Variance Extracted (AVE), as well as reliability testing using Composite Reliability and Cronbach's Alpha.

Convergent Validity and Reliability

The results show that all constructs fulfilled the recommended criteria. Indicators with loading values above 0.70 were retained, while indicators below the threshold were removed during the first evaluation stage. After model refinement, all remaining indicators demonstrated adequate validity.

Table 2. Convergent Validity and Reliability Assessment

Variable	*Indicator*	*Outer Loading*	*AVE*	*Composite Reliability*	*Cronbach's Alpha*	*Result*

Service Quality (X1)	SQ indicators	>0.70	0.776	>0.90	>0.80	Valid and Reliable
Bank Reputation (X2)	BR indicators	>0.70	0.781	>0.90	>0.80	Valid and Reliable
Customer Satisfaction (Z)	CS indicators	>0.70	0.679	>0.80	>0.70	Valid and Reliable
Customer Loyalty (Y)	CL indicators	>0.70	0.743	>0.90	>0.80	Valid and Reliable

Table 2 shows The AVE values of all constructs exceeded the minimum requirement of 0.50. Service quality obtained an AVE value of 0.776, bank reputation 0.781, customer satisfaction 0.679, and customer loyalty 0.743. These findings indicate that each construct explains more than half of the variance of its indicators.

Discriminant Validity

Discriminant validity was evaluated using the Fornell-Larcker Criterion and Heterotrait-Monotrait Ratio (HTMT). The results indicate that each construct has adequate distinction from other constructs.

Table 3. Fornell-Larcker Criterion

Construct	***Service Quality***	***Bank Reputation***	***Customer Satisfaction***	***Customer Loyalty***
Service Quality	0.881			
Bank Reputation	0.742	0.884		
Customer Satisfaction	0.811	0.765	0.824	
Customer Loyalty	0.765	0.701	0.798	0.862

The square root of AVE for each construct is higher than the correlation values with other constructs, confirming discriminant validity.

Table 3 presents the Fornell–Larcker criterion for assessing discriminant validity. The diagonal values represent the square root of the Average Variance Extracted (AVE), while the off-diagonal values represent correlations between constructs. The square roots of AVE for Service Quality (0.881), Bank Reputation (0.884), Customer Satisfaction (0.824), and Customer Loyalty (0.862) are higher than their respective correlations with other constructs. Therefore, all constructs satisfy the Fornell–Larcker criterion, indicating adequate discriminant validity.

Table 4. HTMT Ratio

Relationship	***HTMT Value***	***Criterion***	***Result***
Service Quality – Bank Reputation	<0.90	<0.90	Accepted
Service Quality – Customer Satisfaction	<0.90	<0.90	Accepted
Service Quality – Customer Loyalty	<0.90	<0.90	Accepted
Bank Reputation – Customer Satisfaction	<0.90	<0.90	Accepted
Bank Reputation – Customer Loyalty	<0.90	<0.90	Accepted
Customer Satisfaction – Customer Loyalty	<0.90	<0.90	Accepted

Table 4 presents the Heterotrait–Monotrait (HTMT) ratio as an additional assessment of discriminant validity. The recommended threshold is below 0.90. The results indicate that all construct relationships meet the HTMT criterion, suggesting that Service Quality, Bank Reputation, Customer Satisfaction, and Customer Loyalty are empirically distinct constructs. Thus, the measurement model demonstrates satisfactory discriminant valid

Structural Model Evaluation (Inner Model)

The structural model was evaluated through coefficient of determination (R^2), effect size (f^2), predictive relevance (Q^2), and hypothesis testing.

Coefficient of Determination (R-Square)

Table 5. R-Square Value

Endogenous Variable	*R^2 Value*	*Interpretation*
Customer Satisfaction	0.812	Strong explanatory power
Customer Loyalty	0.637	Moderate to strong explanatory power

Table 3 The R^2 value indicates that service quality and bank reputation explain 81.2% of customer satisfaction. Furthermore, service quality, bank reputation, and customer satisfaction explain 63.7% of customer loyalty.

Effect Size Test (f^2)

Table 6. Effect Size Analysis

Relationship	*f^2 Interpretation*
Service Quality → Customer Loyalty	Small to moderate effect
Bank Reputation → Customer Loyalty	Small effect
Service Quality → Customer Satisfaction	Large effect
Bank Reputation → Customer Satisfaction	Large effect
Customer Satisfaction → Customer Loyalty	Large effect

The strongest contribution is generated by service quality toward customer satisfaction and customer satisfaction toward customer loyalty.

Hypothesis Testing

Table 7. Structural Model and Hypothesis Testing Results

Hypothesis	*Relationship*	*Path Coefficient*	*T-statistic*	*P-value*	*Result*
H1	Service Quality → Customer Loyalty	0.308	2.846	0.004	Supported
H2	Bank Reputation → Customer Loyalty	0.169	1.937	0.053	Not Supported
H3	Service Quality → Customer Satisfaction	0.679	18.763	0.000	Supported
H4	Bank Reputation → Customer Satisfaction	0.558	11.652	0.000	Supported

H5	Customer Satisfaction → Customer Loyalty	0.847	7.094	0.000	Supported

The results demonstrate that service quality significantly increases customer loyalty. However, bank reputation does not directly influence loyalty. Customer satisfaction becomes the strongest predictor of customer loyalty.

Mediation Analysis

The mediation analysis was performed to identify whether customer satisfaction explains the mechanism through which service quality and bank reputation influence customer loyalty.

Table 8. Specific Indirect Effect Analysis

Hypothesis	***Mediation Path***	***Path Coefficient***	***T-statistic***	***P-value***	***Result***
H6	Service Quality → Customer Satisfaction → Customer Loyalty	0.575	7.480	0.000	Supported
H7	Bank Reputation → Customer Satisfaction → Customer Loyalty	0.473	6.505	0.000	Supported

The mediation results demonstrate that customer satisfaction significantly mediates both relationships. Service quality has partial mediation because it still influences loyalty directly, while bank reputation has full mediation because its influence occurs through customer satisfaction.

DISCUSSION

The Effect of Service Quality on Customer Loyalty

The findings of this study demonstrate that service quality has a positive and significant effect on customer loyalty. This result indicates that customers who perceive better service performance tend to develop stronger intentions to maintain their relationship with BCA. Service quality becomes an important foundation in creating loyalty because banking services involve continuous interactions, trust, and customer dependence on accurate and reliable financial transactions. From the perspective of the Commitment-Trust Theory of Relationship Marketing developed by Morgan and Hunt (1994), positive service experiences strengthen customers' confidence and commitment toward a service provider. In the banking context, customers do not evaluate only the final outcome of transactions but also the service process, including responsiveness, reliability, assurance, empathy, and the ability of employees to provide appropriate solutions.

The finding confirms previous studies showing that service quality contributes significantly to customer loyalty because consistent service performance reduces uncertainty and encourages customers to maintain long-term relationships with banks (Jeany & Siagian, 2020; Susilawati, 2025; Taqi Ardabilli et al., 2024). However, several studies have reported different results, indicating that service quality does not always directly create loyalty unless customers perceive meaningful value from the service experience. Therefore, the present finding emphasizes that in a competitive banking environment, superior service quality remains an important strategic factor for maintaining customer relationships.

The Effect of Bank Reputation on Customer Loyalty

The results indicate that bank reputation does not have a significant direct effect on customer loyalty. Although the relationship between reputation and loyalty shows a positive direction, the statistical evidence indicates that reputation alone is insufficient to directly encourage customers to remain loyal. This finding provides an important theoretical implication because reputation represents a broader institutional perception, while loyalty reflects customers' behavioural commitment based on their accumulated experiences. A bank may possess strong credibility, financial stability, and a positive public image; however, customers still require direct confirmation through satisfactory service interactions before developing deeper loyalty.

This finding supports previous research suggesting that reputation primarily functions as an initial trust-building mechanism rather than a direct determinant of loyalty. Customers may choose a reputable bank because they perceive lower risk, but long-term loyalty develops when the bank consistently fulfils customer expectations through actual service experiences. The result also explains the inconsistency in previous studies. Some studies found that reputation positively influences loyalty, while others reported insignificant direct effects. These differences may occur because reputation operates differently depending on banking environments, customer characteristics, and the extent to which institutional image is translated into customer value.

The Effect of Service Quality on Customer Satisfaction

The findings confirm that service quality has a positive and significant effect on customer satisfaction. This result demonstrates that customers' satisfaction is strongly determined by their evaluation of the quality of services received from the bank. In banking services, customers develop satisfaction when transactions are performed accurately, employees provide timely assistance, information is delivered clearly, and the bank demonstrates concern for individual customer needs. Therefore, service quality represents not only a functional attribute but also an important psychological experience that influences customer evaluation.

This finding is consistent with previous studies demonstrating that service quality is one of the strongest antecedents of customer satisfaction in service industries, particularly banking (Sani et al., 2024; Satria & Diah Astarini, 2023; Hidayat et al., 2024). High-quality service reduces the gap between customer expectations and actual experiences, resulting in positive evaluations of the banking relationship. From a managerial perspective, the result suggests that improving service quality should remain a priority strategy. Banks should continuously enhance employee competence, service responsiveness, transaction accuracy, and customer-oriented service processes to strengthen satisfaction.

The Effect of Bank Reputation on Customer Satisfaction

The findings reveal that bank reputation positively and significantly influences customer satisfaction. This indicates that customers who perceive BCA as a credible, reliable, and financially stable institution tend to experience higher satisfaction. Reputation provides customers with confidence before and during their interactions with the bank. In financial services, where customers entrust their funds and personal information to institutions, perceived credibility reduces uncertainty and creates psychological security. When actual service performance aligns with the positive reputation of the bank, customers are more likely to evaluate their experiences favourably. This finding supports the argument that reputation functions as an intangible resource that influences customer perceptions and emotional responses. Previous studies have also demonstrated that corporate reputation and bank image contribute positively to customer satisfaction because customers associate reputable institutions with reliability, professionalism, and service assurance (Sugiat et al., 2023; Nur et al., 2023).

Therefore, maintaining reputation should not be viewed only as a branding activity but also as part of customer relationship management. A strong reputation must continuously be supported by consistent operational performance.

The Effect of Customer Satisfaction on Customer Loyalty

The results show that customer satisfaction has the strongest positive influence on customer loyalty. This finding indicates that satisfaction represents the central mechanism in transforming customers' evaluations into long-term relational commitment. Satisfied customers are more likely to continue using banking services, recommend the bank to others, use additional products, and resist competing offers. Thus, loyalty is not merely the consequence of repeated transactions but reflects customers' emotional attachment and confidence in maintaining relationships with the bank.

This finding strongly supports the Commitment-Trust Theory of Relationship Marketing, which explains that sustainable relationships are created through positive experiences that generate trust and commitment. Customer satisfaction becomes the bridge between service performance, institutional perception, and behavioural loyalty. The result is consistent with previous studies demonstrating that customer satisfaction is a key predictor of loyalty in banking services (Elsania & Sumantri, 2024; Handayani & Prasetya, 2024; Jeany & Siagian, 2020; Satria & Diah Astarini, 2023). Therefore, banking institutions should focus not only on attracting customers but also on continuously improving satisfaction throughout the customer journey.

The Mediating Role of Customer Satisfaction

The mediation analysis provides an important contribution by demonstrating that customer satisfaction explains how service quality and bank reputation influence customer loyalty. The findings show that customer satisfaction partially mediates the relationship between service quality and loyalty, while it fully mediates the relationship between bank reputation and loyalty. The partial mediation of customer satisfaction in the relationship between service quality and loyalty indicates that service quality can directly encourage loyalty, but its effect becomes stronger when customers experience satisfaction. This means that reliable, responsive, and empathetic services create loyalty primarily because they generate positive customer experiences.

Meanwhile, the full mediation effect of customer satisfaction between bank reputation and loyalty indicates that reputation alone cannot directly create loyal behaviour. A favourable reputation creates expectations and confidence, but loyalty emerges only after customers personally experience satisfaction with the services provided. This finding strengthens the argument that institutional reputation must be translated into customer value through actual interactions. Theoretically, this study contributes by integrating functional evaluation (service quality) and institutional evaluation (bank reputation) into a single relational model. The findings demonstrate that customer satisfaction serves as an affective mechanism connecting these two antecedents with customer loyalty. This contribution extends previous research that often-examined service quality or reputation separately by explaining the process through which customer loyalty is formed.

CONCLUSION

This study concludes that customer loyalty in the banking sector is primarily developed through positive customer experiences and satisfaction. Service quality plays an important role in strengthening customer loyalty because reliable, responsive, and customer-oriented services encourage customers to maintain long-term relationships with the bank. The findings also demonstrate that bank reputation alone is insufficient to directly create customer loyalty. Although a strong reputation provides customers with confidence and reduces uncertainty, loyalty is developed when the reputation is consistently supported by satisfactory service experiences. Therefore, reputation functions more effectively as a foundation for building customer confidence rather than as a direct driver of loyal behaviour.

Furthermore, customer satisfaction serves as an important mechanism that connects service quality and bank reputation with customer loyalty. Satisfaction transforms customers' perceptions of service performance and institutional credibility into stronger relational commitment. This finding highlights that sustainable customer loyalty is not only determined by what customers perceive about the bank but also by how they experience and evaluate the services provided. Theoretically, this study contributes to the Commitment-Trust Theory of Relationship Marketing by demonstrating the role of customer satisfaction as an affective mechanism that converts functional and institutional evaluations into long-term customer relationships. Practically, the findings emphasize that banking institutions should focus on improving service excellence, maintaining institutional credibility, and creating meaningful customer experiences to strengthen loyalty.

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