



How does brand trust enhance satisfaction and loyalty of commercial bank customers?

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The purpose of the study is to discuss the importance of brand trust in the banking industry in the Philippines. This study aims to determine various factors' effect on customer loyalty in a banking service environment. It empirically tests a model that proposes that consumer brand trust and brand effect influence consumer brand loyalty. We used a partial least squares structural equation modeling (PLS-SEM) to test the hypothesis and model. The findings indicated that customer satisfaction influenced consumer brand loyalty. Additionally, the results have a positive, though nonsignificant, the indirect effect of consumer brand trust on the relationship between satisfaction and consumer loyalty.

Keywords: banking services, loyalty, satisfaction, trust,

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Introduction

Customer satisfaction has been identified as a factor influencing loyalty theoretically and empirically. Market success and profitability are contingent upon the ability of the business to attract, satisfy, and retain customers. This necessitates an examination of the factors that influence consumers' satisfaction with a product or service, the factors that influence their decision to purchase or use a product or service, and their loyalty to the company. As measured by previous research, satisfaction with service quality can be critical for competitive advantage in the service industry, as it is associated with customer retention and corporate reputation (Zeithaml 2000). For various reasons, a company's long-term customers are important. Maintaining a loyal customer is typically less costly than bringing in a new business (Martisiute et al. 2010). A growing body of research has produced various loyalty models. Much previous research on customer loyalty has focused on a single bank such as Swedbank (Bülbul 2013). Also, the competitive banking industry in Germany recognizes that customer trust is important to increase customer loyalty and must be evaluated carefully.

Deregulation in many countries has encouraged large banks to expand into other countries, but a new-or-foreign bank establishment is the most difficult thing for local banks to handle. Banks focus on

investment, lending, asset management, and financial services while improving processing and communication (Talavera 2020). These developments attracted financial firms. Global and geographic diversification followed the financial crisis (Duke & Cejnar 2013). The Philippines' banking industry achieves similar results. The 1980s saw several banking reforms, including RA 7721 and the "BA Law" (the "Foreign Bank Merger Law" or Regulation Law). Asian banks recovered from mergers and acquisitions. Liberalization regulation allowed foreign banks, prepared the industry for globalization, and gave it a chance (Manlagnit & Lamberte 2004). Customers have options. Consumers are more selective, analytical, and critical because they have many options. More importantly, financial deregulation and globalization have allowed non-corporate services to compete. It spreads geographically. The Philippine banking industry adapted to aid the financial sector. These reforms also enabled (1) enhanced functions and offerings after RA 7721 (the 1994 Foreign Bank Liberalization) and (2) Asian bank consolidation after the early 1990s crisis. International banks increased after Philippine banking liberalization. Customers now have more banking options. Quality and responsiveness are needed to retain banking customers by improving customer service.

Because consumers have an extensive range of options, they are more selective, analytical and critical. Satisfying customers also means fixing their problems and resolving their issues. Banks are known for providing exceptional service, a benefit to the competition. In response to the deregulation and privatization of the banking industry, banks have begun providing new and enhanced services for clients. This research examines how customer trust affects consumer satisfaction and loyalty as a critical component. It aims to build a model for determining the elements that contribute to customer satisfaction and trust and their interplay with customer loyalty. This study is situated in the context of commercial banks in the Philippines. Specifically, this study aims to determine the impact of customer satisfaction on customer loyalty; customer satisfaction on brand trust; brand trust on customer loyalty, and the mediation effect of brand trust on the influence of customer satisfaction on customer loyalty.

Theoretical Foundation and Hypotheses Development

According to the conceptual framework, as seen in Figure 1, customer satisfaction and trust impact customer loyalty to the bank. Based on a literature review, the study proposes that trust indirectly affects customer loyalty via satisfaction.

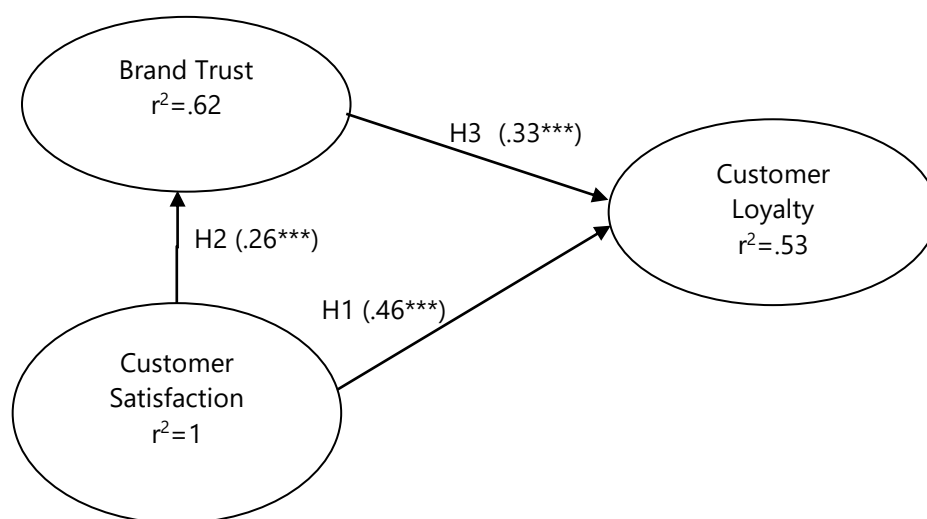


Figure1. Conceptual Framework

Source: PLS-Path Coefficients, ***= $p < .01$

The model suggests that trust is a critical mediator of the effect of loyalty. Customer satisfaction is highly correlated to customer loyalty, repeated business, and new opportunities through word-of-mouth (Oliver 2009). Successful businesses can increase customer satisfaction after they (a) are made aware of the level of quality of service perceived by the customers, (b) the level of quality of service they provide, and (c) make the necessary steps to close the gap between customer perception or expectations with their actual quality service levels (McDougall & Levesque 2000). When a business delivers the quality-of-service customers need, the customers are shown to practice loyalty and trust in the business (Zheitaml 2000). Similarly, brand trust is critical in customer-bank relationships and all customer relationships. The trust facilitates customer transactions. Trust in the banking system, trust in banks, and trust in financial institutions such as insurance companies and pension funds have decreased because of the financial crisis in several countries. The banking system and specific banks are blamed for contributing to the financial crisis (Bülbül 2013). As a result, trust has been violated, and it is necessary to view the situation from a broad and narrow perspective (Veloutsou 2015).

Customer Satisfaction and Customer Loyalty

Manyanga et al. (2022) revealed that customer experience, satisfaction, and word-of-mouth intention positively affected customer loyalty because banks that provided distinctive customer experiences satisfied their clients and enhanced word-of-mouth intention by addressing main points and word-of-mouth intention on customer loyalty. Pasco and Lao (2021) confirmed that positive customer experience increased customer retention in a call center firm in the Philippines. Menidjel et al. (2017) discovered a direct relationship between brand satisfaction and customer loyalty. Further, Han et al. (2018) examined the factors affecting brand loyalty in the coffee shop industry. Krivic and Loh (2018) found the factors influencing fitness club customer loyalty, while Cheng et al. (2016) focused on the factors contributing to customer loyalty in China's theme parks. Therefore, this research posits:

H1. Customer satisfaction positively affects customer loyalty.

Customer Satisfaction and Brand Trust

Customer satisfaction plays a significant role in brand trust. Customer satisfaction positively correlates to brand trust and loyalty among female cosmetic consumers in Scotland (Veloutsou 2015). Similarly, Rather and Sharma (2016) reached the same conclusion in a study in hospitality management to determine the factors that influence brand trust. Bianchi (2015) studied how customer satisfaction influences brand trust in Chile's wine industry. Kuswati et al. (2021) concluded about Telkomsel in Surakarta Indonesia that consumer satisfaction positively and significantly impacts brand trust. Ali et al. (2020) showed that there is an influence of brand trust on customer satisfaction. However, Fadli et al. (2023) argued that brand trust has no significant relationship with customer satisfaction in Bank Syariah in Indonesia. So we propose the following hypothesis:

H2. Customer satisfaction positively affects brand trust.

Brand Trust and Customer Loyalty

Customer loyalty is critical to the success of the business and the customer. Oliver (2009) defined customer loyalty as a 'firm commitment to repurchase or re-patronize a preferred product and services in the future, resulting in repetitive purchases of the same brand or brand-set, despite situational influences and marketing efforts that might cause switching behavior. Brand trust influences customer loyalty; thus, the greater the level of customer trust, the greater customer loyalty (Nunnally 1978). Apart from customer satisfaction, numerous researchers have examined the role of brand trust in developing high-quality relationships (Nunnally & Bernstein 1994). Additionally, brand trust has been conceptualized as a

necessary component of relationship management as a source of credibility, honesty, and communication between parties (Zeithaml et al. 1996). Malhan and Anjum (2017) found a significant influence of customer satisfaction and brand trust on brand loyalty in the mobile phone industry in India. This research asserts:

H3. Brand trust positively affects customer loyalty.

Mediation Effect of Brand Trust

In the Saudi Arabia banking sector, trust in the bank partially mediated the relationship between knowledge, loyalty, and satisfaction (Albarq 2023). Testing the theory of consumer behavior, Diputra and Yasa (2021) found that product quality, brand image, and brand trust improved customer satisfaction and increased consumer loyalty. The current study views satisfaction as a predictor of brand trust. This demonstrates the validity of the assertion that customer satisfaction and trust are inextricably linked to customer loyalty (Han et al. 2018). Considering the preceding research, this research hypothesizes that:

H4. Brand trust mediates the impact of customer satisfaction on customer loyalty.

Methodology

This research is quantitative and explanatory. Purposive sampling was used to select the cross-sectional research participants in Metro Manila (Kock & Hadaya 2018). The researchers gathered 169 test subjects best positioned to describe brand trust, customer satisfaction, and customer loyalty as commercial bank customers. The respondents were identified using screening standards, and these are: participants have not been involved with a Focus Group (FG) in the past three months involving bank study; working in the bank; and working in a research agency that handles bank clients. These screening questions were necessary to avoid bias in the analysis. A hundred fifty-five people participated in this study after deleting the outliers. Inverse square root and gamma exponential methods were used to determine the sample size required to test a structural model. The inverse square root method estimates standard error by taking the inverse square root of the sample size. The gamma exponential method, on the other hand, estimates standard error using the gamma and exponential smoothing function corrections. The inverse square and gamma exponential methods simulate Monte Carlo experiments, and their estimates are identical to those obtained using the Monte Carlo method (Kock & Hadaya 2018). Because the inverse square root method occasionally overestimates the minimum required sample size, both results must be reported to ensure that the study achieves a power level greater than required (Hair et al. 2019).

With a minimum absolute significant path coefficient of .33 in the structural model, a significance level of .05, and a statistical power level of .80, the following sample sizes are required: 44 is used for the gamma exponential method, and 57 is used for the inverse square root method. The required minimum sample size is between 44 and 57; thus, the actual sample size of 155 is sufficient to adequately explain the structural model's results. Both tests were conducted with statistical computer software using Warp PLS. The mediation model's results show a value of .33 for the minimum absolute significant path coefficient. A statistical power level of .8 indicates that the likelihood of making a Type II error is extremely low. The statistical power of .8 is generally considered an acceptable level of power (Kock & Hadaya 2018). Because 155 samples were used in this study, there is sufficient evidence that the structural model's results are highly acceptable.

Table 1 reports the sample characteristics (n=155). Further, four out of five (4 out 5) of the respondents in Metro Manila were BDO bank clients; 32 percent and 12 percent were BPI and Union Bank users, respectively. In addition, two percent to seven percent bank users among the respondents are consumers of other commercial banks.

Table 1. Sample Characteristics

<i>Demographic Profile</i>	<i>Frequency</i>	<i>%</i>
<i>Male</i>	52	34
<i>Female</i>	93	60
<i>Anonymous Respondents</i>	10	7
<i>Age</i>		
<i>20-25</i>	57	37
<i>21-26</i>	63	41
<i>27-31</i>	18	12
<i>32-35</i>	15	10
<i>No Response</i>	2	1

Research Instruments

The researchers developed a structured questionnaire with closed-ended and open-ended questions and a rating scale. These instruments were pre-tested on 100 initial respondents to ensure their understandability and usability of the test questionnaire. The sample size was large enough to support the exploratory factor analysis. Personal interviews with a few customers were used to validate the research instrument's content validity and appropriateness. Pre-testing was beneficial for examining and evaluating the research instrument, resulting in minor modifications to the developed items. These variables (customer satisfaction, brand trust, and customer loyalty) were derived from previously developed research instruments (Hayes 2008, Hess 1995). However, the language of the items has been modified to align with the banking sector. All items were rated on a five-point Likert scale from 5 (strongly agree) to 1 (strongly disagree). The three construct variables were assessed using a 12-item questionnaire.

Analysis and Results

The current study employed a quantitative research design. Additionally, a causal approach was used to quantify the relationships between customer satisfaction, brand trust, and customer loyalty. The parameters of the mediation model were estimated using partial least squares – structural equation modeling (PLS-SEM) with WarpPLS™ statistical software. PLS-SEM is a variance-based estimation technique used to determine the reliability and validity of constructs and estimate the relationships between these measures (Hair et al. 2019). In PLS-SEM, the path model is evaluated in two stages. The first phase involved evaluation of the measurement model. This phase assessed the variables' reliability and validity. The second phase evaluated the structural model, which analyzed the hypothesized relationships between variables (Dimaunahan & Amora 2016). The mean score for all 155 responses was high, exceeding 4, as shown in Table 2. Customer satisfaction scores above the mean indicate that customers perceive the bank favorably.

Reliability and Validity Measurements

The reliability and validity tests (convergent and discriminant) were analyzed to evaluate the measurement model. The assessment of construct reliability enables examining a reflective or formative item or set of items about the construct it is intended to measure (Hair et al. 2016). Composite reliability and Cronbach's alpha are typically used to determine reliability (Hair et al. 2019). To indicate high reliability, the composite reliability (CR) and Cronbach's alpha (CA) values must be equal to or greater than 0.7 (Nunnally & Bernstein 1994). The variables of customer satisfaction, brand trust, and customer loyalty met the criterion for construct reliability. To achieve an acceptable level of convergent validity, the p-values for each item should be less than or equal to .05, and the loadings should be greater than or equal to .5. (Hair et al. 2019). The correlation between an item and a construct is called item loading (Hair et al. 2019). In Table 2, all item loadings are statistically significant and greater than the .5 thresholds.

Table 2. Item Loading, AVE, and Reliability of the Variables

<i>Item</i>	<i>Variables</i>	<i>Mean</i>	<i>SD</i>	<i>Loading</i>	<i>AVE</i>	<i>CR</i>	<i>CA</i>
<i>Brand Trust</i>							
Tr1	The employee is trustworthy when I open an account	4.41	.57	.93			
Tr2	Online bank transaction is trustworthy	4.38	.62	.89			
Tr3	Banking services can increase customers' trust	4.34	.55	.94	.85	.94	.91
<i>Customer Satisfaction</i>							
S1	My choice to use my current bank was a wise choice	4.36	.55	.82			
S2	I am always delighted with bank employees' service	4.31	.64	.81			
S3	Overall, I have a good impression of my bank	4.39	.58	.86			
S4	I am satisfied with the use of ATM facilities at the bank	4.34	.54	.79			
S5	I am satisfied with the online banking experience	4.36	.55	.80			
S6	Overall I am satisfied with my preferred bank.	4.41	.55	.91	.70	.93	.91
<i>Customer Loyalty</i>							
L1	I will not switch bank	4.14	.74	.82			
L2	If I avail loans, I will use my current bank	4.19	.66	.88			
L3	I will recommend this bank to my friends and relatives	4.48	.67	.74	.66	.85	.74

All item loadings significant at $p < .001$; AVE=average variance extracted; CR=composite reliability; CA=Cronbach's Alpha

Additionally, the average variance extracted (AVE) quantified the variance of each construct derived from its items compared to the variance due to measurement error. Each latent variable has an AVE greater than .5, the recommended value for acceptable validity (Fornell & Larcker 1981). The coefficients of AVE were found to be valid. The reliability and validity tests (convergent and discriminant) were analyzed to evaluate the measurement model. The assessment of construct reliability enables examining a reflective item or set of items about the construct it is intended to measure (Hair et al. 2019). Composite reliability and Cronbach's alpha were used to determine to construct reliability. To indicate high reliability, the composite reliability (CR) and Cronbach's alpha (CA) values must be equal to or greater than .7 (Nunnally & Bernstein 1994).

Correlations between variables and square roots of AVE coefficients are shown in Table 3 to assess the instrument's discriminant validity. Discriminant validity determines whether the statements associated with each latent variable are clear to respondents when completing the questionnaire. Additionally, it verifies that statements relating to a single variable, for example, do not conflict with statements of other variables. For each variable, the square root of the AVEs should be greater than the square root of any of the variables' correlations (Fornell & Larcker 1981). The results conclude that the measures possess discriminant validity.

Table 3. Square Roots of AVE Coefficients and Correlation Coefficients

	<i>Trust</i>	<i>Satisfaction</i>	<i>Loyalty</i>
Brand Trust	.92	.77	.57
Customer Satisfaction	.77	.83	.64
Customer Loyalty	.57	.64	.87

Notes: Diagonal elements are the square root of the AVE of constructs, while the off-diagonal elements are the correlation between constructs

Model Fit and Quality Indices

Overall, the results showed that the SEM estimates were within an acceptable range. The p-values of the average path coefficient (APC), average R-squared (ARS), and average adjusted R-squared (AARS) must be equal to or less than .05 for the model to be acceptable. The recommended value for average block VIF (AVIF)

and average full collinearity VIF (AFVIF) indices is 3.3 or less. In terms of Tenenhaus goodness of fit (GoF), an index that measures the model's explanatory power, the following thresholds are used: small if equal to or greater than .1, medium if equal to or greater than .25, and large if equal to or greater than .36 (Wetzels et al. 2009). The GoF is the square root of the product of the average communality index and the ARS (Tenenhaus et al. 2005). The fit and quality indices of the model are within acceptable ranges. The model fit and quality indices are *APC* (.52 $p < .00$), *ARS* (.57 $p < .00$), *ARRS* (.57 $p < .00$), *AVIF* (2.07), *AFVIF* (2.54) and Tenenhaus *GoF* (.65).

Mediation and Model Results

The model for a significant mediating effect test is depicted in Figure 2. The relationship between satisfaction and trust is significant ($\beta = .26$, $p < .01$), as is the relationship between trust and loyalty ($\beta = .33$, $p < .01$). Furthermore, the relationship between customer satisfaction and loyalty is significant ($\beta = .46$, $p < .01$). The mediation model's parameter estimates are summarized in Table 3. The data analysis revealed that customer satisfaction influences respondents' loyalty. The positive path coefficient accentuates the fact that customer satisfaction increases customer loyalty. The path from customer satisfaction to customer loyalty has a significant effect size (Cohen's $f^2 = .31$). The statistical test implies that *H1* is supported.

Table 3. Parameter Estimates of the Mediation Model

<i>Relationships between Variables</i>	<i>Coefficients β</i>	<i>SE</i>	<i>P-Value</i>	<i>f²</i>
H1 Customer Satisfaction → Customer Loyalty	.46	.07	.00	.31
H2 Customer Satisfaction → Brand Trust	.26	.06	.00	.62
H3 Brand Trust → Customer Loyalty	.33	.07	.00	.21
H4 Indirect effect Satisfaction → Brand Trust → Loyalty	.08		ns	

f² is Cohen's (1988) effect size: .02=small, .15=medium, .35=large; β =standardized path coefficient.

On the other hand, customer satisfaction significantly affects trust ($\beta = .26$, $p < .00$). The positive path coefficient signifies that the customer is satisfied with the bank and increases bank trust. The coefficient of determination indicates that 62 percent of the variation in bank trust is accounted for by customer satisfaction. The effect size of the path from satisfaction to bank trust is large (Cohen's $f^2 = .62$). Thus, *H2* is supported. Data analysis also revealed that bank trust and loyalty are positively related ($\beta = .32$, $p < .00$). The positive path coefficient depicts that as customer increases, their trust towards the bank in their intention to be loyal and committed to the bank increases. The effect size of the path from bank trust to bank loyalty is medium (Cohen's $f^2 = .21$). Thus, *H3* is also supported. The indirect effect of bank trust on the relationship between customer satisfaction and bank loyalty is statistically nonsignificant ($\beta = .08$, $p > .05$). This suggests that trust does not mediate the relationship between customer satisfaction and customer loyalty significantly, though positive. And thus, *H4* is partially supported.

Key Drivers of Customer Satisfaction

To add to the context of this research, the researchers asked open questions to examine the customers' satisfaction with their banks. The clustering of the responses is based on the Q methodology evaluation of Talavera's (2020) research on the dimensionality structure of SERVQUAL of Philippine banks. According to the findings, five critical service attributes may contribute to their satisfaction: convenient location (43%), functional ATM (33%), prompt and courteous service (19%), secure bank transaction (9%), and effective customer service assistance (7%).

Discussion

There are significant relationships between customer satisfaction and customer loyalty, customer satisfaction and brand trust, brand trust and customer loyalty, and the mediation effect of brand trust on the impact of customer satisfaction on customer loyalty. For *H1* (Customer satisfaction positively affects customer loyalty), results suggest that superior banking services boost customer loyalty because perceived satisfaction results in loyalty and commitment. The study's findings corroborate those of Cheng et al. (2016), Menidjel et al. (2017), Krivic and Loh (2018), Pasco and Lao (2021), and Manyanga et al. (2022). While the current study demonstrates that Filipino bank customers remain loyal to their bank despite service problems and concerns, Talavera (2020) argues that bank customers do not expect immediate resolution of any bank-related concerns, the bank's effort to respond to and address the customer's queries or complaints reflects the bank's service quality. For *H2* (Customer satisfaction positively affects brand trust), findings suggest that customer satisfaction significantly affects a customer's brand trust. Superior banking services reinforce brand trust because perceived satisfaction brings out respect, a feeling of security, loyalty, and commitment in clients, which supports the findings of Bianchi (2015), Veloutsou (2015), Rather & Sharma (2016), and Kuswati et al. (2021). The results contradict the findings of Fadli et al. (2023) about the absence of a relationship between customer satisfaction and brand trust.

For *H3* (Brand trust positively affects customer loyalty), brand trust also enhances brand satisfaction. A brand trust provides numerous marketing benefits, including reduced marketing costs, increased new customer acquisition, significant trade leverage, favorable word of mouth, and resistance to competitor marketing efforts. As a result, marketing executives can justify promotional expenditures if they wish to ensure both constructs' long-term viability. A customer's brand trust is a precursor to customer loyalty, emphasizing the critical role of trust in loyalty that comes with service quality, reliability, and satisfactory experience of clients with a bank. The results are aligned with the findings of Nunnally (1994), Zeithml et al. (1996), and Malhan & Anjum (2017).

The *H4* that brand trust mediates the impact of customer satisfaction on customer loyalty was partially supported. In the mediation analysis, brand trust was presented as a mediator to the impact of customer satisfaction on customer loyalty, emphasizing the critical role of brand trust in customer loyalty. Brand trust increases in direct proportion to customer satisfaction. The findings corroborate prior research (Bianchi 2015; Cheng et al. 2016; Menidjel et al. 2017; Han et al. 2018; Krivic & Loh 2018). The findings of Albarq (2023), Diputra & Yasa (2021) also converged with the results of this study. It is critical to emphasize that over 86 percent of Filipino bank consumers will not switch banks because of increased satisfaction and brand trust, willingness to recommend their bank to others, and future intention to use additional bank services such as loans, all of which demonstrate customer loyalty and commitment to their current bank.

Conclusion

In commercial banking in the Philippines, brand trust, with its direct and mediating effects, is important to realize customer loyalty. The relevance of the customer experience, the reliability of products and services, and the consistency of customer satisfaction develop brand trust. Customer satisfaction with the bank strengthens customer loyalty, while customer satisfaction develops brand trust. Building strong customer relationships on routine occasions with excellent bank service is the key to building trust and loyalty. Aside from human process intervention to foster excellent customer service with bank clients, customer focus system innovations are necessary to be ahead of the competition.

This study has implications for managers. The study suggested investing in digital infrastructure to streamline the process of opening an account, paying bills, consumer investment, and consumer loans application through an online facility without going to physical banks to avoid long waiting lines. A sophisticated digital transformation to enhance customer experience requires secured and reliable

infrastructure to build consumer trust and confidence. Reliable cybersecurity initiatives are also recommended to ensure online bankers are assured of security online now that bank clients are more inclined to transact an online banking experience. Further study is needed to validate the mediation effects.

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