Impact of Personalised Banking Services on Customer Retention in Small and Medium Banks

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Abstract

*The purpose of this study is to analyse the relationship between customised bank services with customer satisfaction, confidence, and commitment in India. Data was obtained through a standard questionnaire with a sample size of 100, with diverse frequencies and ages. There was evidence from the outcome showing that customers reported a high personal connection between high satisfaction and tailored services, since 65% agreed. In addition, 70% of them confirmed that those services persuaded them to trust the bank more, and 70% of them reported that they would be more likely to keep their existing bank for customised service. The results emphasise the importance of a customised banking experience to attain customer loyalty, as well as the useful lessons given to banks attempting to build a strong customer relationship strategy***.**

Keywords: Customer Retention, Customer Satisfaction, Customer Trust, Indian Banking Sector, Personalised Banking Services

Introduction

The banking industry has transformed with the introduction of bespoke banking services to keep customers. Banks in the present digital era use technology-driven solutions such as Artificial Intelligence (AI)-based investment advice, tailored loans, enhanced security, and real-time personalisation to serve the needs of the customers. A few studies estimate the services' influence on customer loyalty and satisfaction. Earlier studies by Reichheld & Sasser (1990) had already determined the importance of customer retention to profitability, whereas recent studies by Gupta & Dev (2022) describe how AI-driven banking services propel long-term engagement. Sharma *et al*. (2023) also contend that security measures and fraud detection are key to customer retention as they build trust. This study investigates the role of custom-made banking products in retaining customers by small and medium banks and, therefore, bridges a gap in the literature since it targets emerging markets. Recent studies have emphasised the role of AI in enhancing customer retention through predictive analytics, behavioural modelling, and real-time personalisation (Singh *et al*., 2024; Rainy, 2025; Chaturvedi, 2025). Despite banking technology progress, certain small and medium banks cannot retain customers with unpredictable personalisation and poor integration of technology. Customers therefore change to others with more personalised products, and Customer experience and satisfaction also play a mediating role in loyalty (Khan & Rahman, 2021; Sharma & Baoku, 2020). While large banks have made serious investments in AI-based solutions and Evidence from Bangladesh and Vietnam confirms that digital banking services significantly influence satisfaction and loyalty (Mollah & Islam, 2021; Nguyen & Khoa, 2020).This research tries to fill this gap by examining how customised banking products affect customer retention and the determinants of customer loyalty.

Literature Review

Studies on customer retention began by highlighting the centrality of service quality and satisfaction in driving loyalty. Foundational work by Parasuraman *et al*., (2005) emphasised Electronic Service Quality (E-S-QUAL) as a predictor of retention in tech-enabled banking. Over time, researchers noted that

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personalisation plays a critical role in shaping these outcomes.

AI and Personalisation in Banking: Recent literature highlights a surge in AI based solutions for customer engagement. Mehta and Chatterjee (2021) examined how machine learning enables banks to deliver personalised offerings, while Singh *et al*., (2024) identified a growing consensus on the effectiveness of AI powered customer analytics in improving retention. Similarly, Chaturvedi (2025) and Rainy (2025) provide evidence that AI enabled Customer Relationship Management (CRM) systems enhance satisfaction and foster long term loyalty by offering real time, needs based customisation. Supporting this, Ashrafuzzaman *et al*., (2025) reviewed AI-powered personalization in digital banking, highlighting customer analytics and engagement.

Beyond CRM, studies show that AI powered chatbots significantly improve customer relationship management and loyalty (Lee & Kim, 2020; Pappas *et al*., 2021). In the Indian context, Singh and Srivastava (2021) found that customer perception of AI driven banking services strongly influences satisfaction and trust. Recent work on online banking services also highlights the growing importance of digital personalisation in emerging markets (Nilaish, Gnanesh, & Abhijeeth, 2024).

Together, these studies reinforce the view that AI driven personalisation is a critical determinant of customer retention in modern banking.

Security and Trust: Digital banking faces persistent challenges in maintaining customer trust, particularly around data security and privacy. Sharma, Mehta, and Kapoor (2023) emphasise that robust cybersecurity practices and fraud detection systems are pivotal in building digital trust, which in turn strengthens customer loyalty and retention. Supporting this, Sharma *et al*., (2023) showed that enhanced fraud detection features build trust and reduce attrition.

Beyond fraud detection, prior studies highlight that personnel capability and customer satisfaction also predict retention outcomes (Darzi & Bhat, 2018). Evidence from Islamic banking further confirms that personalised services enhance loyalty by reinforcing trust (Raza, Umer, & Shah, 2020). Similarly, mobile payment adoption during the COVID 19 pandemic illustrates how trust and convenience drive customer retention in digital contexts (Zhao & Bacao, 2021). Together, these findings underscore that both technological safeguards and human centric service quality are essential for sustaining trust and ensuring long term customer relationships in digital banking.

Gap in Small and Medium Banks: Most existing studies focus on large commercial banks or global fintech platforms. Kondoju & Singh (2024) further examined how fintech platforms leverage AI-powered analytics to improve retention. However, Swamy (2024) points out that small and medium banks in India struggle with digital adoption and resource constraints, making it unclear how personalisation is delivered in such settings.

Thus, while personalisation in digital banking has been widely examined in developed markets, there is limited empirical research on its role in retaining customers in small and medium banks in emerging economies. This study addresses that gap by empirically evaluating how AI-based personalisation impacts customer retention in the Indian banking sector, where technological adaptation is still evolving.

Objectives and Hypothesis

- To measure the effect of AI-driven financial advice on customer loyalty
- To check for the effect of custom lending on fostering loyalty
- To check whether security and fraud alerts have any impact on customer trust
- To investigate how real-time personalisation impacts customer interaction
- To check average personalisation performance in small and medium-sized banks

Hypotheses

- H1: AI-based financial advice is positively associated with customer retention.
- H2: Tailored loan proposals promote higher customer loyalty.
- H3: Advanced security features support customer trust and retention.
- H4: Live personal offers are associated with increased customer interactions.
- H5: Personal banking service has a significant effect in relation to customer retention in small and medium-sized banks.

Research Methodology

The research will explore the effect of customised banking services on customer retention through a quantitative research design. A systematic questionnaire was prepared and administered to respondents, and data were tested using parametric and non-parametric tests. The study has a descriptive design to highlight customer perceptions and trends. The target population consists of customers of small and medium banks in India who actively engage with banking services. A total of 100 respondents were selected through convenience sampling, allowing for efficient data collection from individuals who have experienced personalised banking services. The sample

size is justified as it provides statistically significant insights into customer retention and trust levels. Data was collected through an online structured questionnaire (Google Forms), designed to assess customer experiences with personalised banking. The questionnaire included multiple-choice and Likert scale questions to measure satisfaction, trust, and retention. Key areas covered in the survey included customer demographics, banking interaction frequency, personalised product offerings, and customer perception of value. The questionnaire was distributed electronically, and responses were gathered over two weeks. Respondents were assured of confidentiality, and participation was voluntary. The structured format ensured consistency in responses, aiding in precise analysis. The collected data were analysed using descriptive and inferential statistical methods, including:

Data Analysis and Interpretations

The findings are presented in the form of tables below for pinpointing emphasis.

1. Demographic Profile of Respondents

Interpretation: Most of the respondents (35%) are in the 26–35 age group, and most of them bank monthly (40%). This implies that young professionals constitute a substantial group of banking customers, needing regular but customised banking services.

2. Customer Perception of Personalised Banking Services

Overwhelmingly, interview respondents (70%) concur that customised services value their banking experience. Meanwhile, 30% of banking customers are equally split on whether they have or haven't received personalised service, leaving their bank exposed to better communication and contact.

3. Hypothesis Testing Results

H1: AI-based financial advisory has a positive impact on customer retention

Result: Since $p < 0.05$, we reject the null hypothesis and conclude that AI-based advisory services positively impact customer retention.

H2: Customised loan options increase customer loyalty

Result: The p-value (0.014) < 0.05, indicating that customised loan options have a statistically significant effect on customer loyalty.

H3: Enhanced security features improve customer trust and retention

Result: A Cronbach's Alpha of 0.85 confirms that security measures strongly influence customer trust and retention.

Table 1: Demographic Profile of Respondents

Category	Frequency	Percentage (%)
Age Group		
18–25	20	20%
26–35	35	35%
36–45	25	25%
46–55	10	10%
56 and above	10	10%
Frequency of Bank Interaction		
Weekly	30	30%
Monthly	40	40%
Occasionally	20	20%
Rarely	10	10%

Source: Primary survey data collected by authors (2025), analysed using descriptive statistics.

Table 2: Hypothesis Testing – AI-based Advisory Services

Variable	Coefficient	Std. Error	t-Statistic	p-Value
AI-based Advisory Services	0.68	0.10	6.80	0.0001

Source: Computed by authors using regression analysis in SPSS (2025).

Table 3: Hypothesis Testing – Customised Loan Options

Variable	Chi-Square Value	p-Value
Customised Loan Offers	8.45	0.014

Source: Computed by authors using Chi-square test (2025).

Table 4: Hypothesis Testing – Customised Loan Options

Cronbach's Alpha	Interpretation
0.85	High Reliability

Source: Computed by authors using Chi-square test (2025).

Table 5: Customer Perception Statements

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
The bank understands my financial needs	30%	30%	25%	10%	5%
I have been offered customised banking services	55%	15%	30%	-	-
Personalised services add value to my banking	70%	15%	15%	-	-
Personalised services influence my decision to stay	35%	30%	20%	10%	5%
I trust my bank more due to personalised services	65%	15%	20%	-	-

Source: Primary survey data collected by authors (2025).

Summary of Findings

Key Finding	Result
The majority of customers interact monthly with their bank	40%
AI-based advisory services positively impact retention	Confirmed ($p < 0.05$)
Customers value personalised banking experiences	70% Agree
Enhanced security measures improve trust and retention	High Reliability (Cronbach's Alpha = 0.85)

Source: Compiled by authors from survey results (2025).

Conclusion

The research confirms the importance of personalised banking services in influencing customer loyalty, trust, and satisfaction. The research clearly indicates that advisory services through AI, value-added loan products, and stronger security features are the most powerful drivers in favour of customer loyalty. With 70% of the surveyed populations showing concurrence that value-added services are delivered through personalised services and with a Cronbach's Alpha of 0.85 indicating reliability, the research gives strong empirical evidence towards embracing personalised banking strategies.

This study focuses on the issue of customer loss in small and medium banks by identifying effective strategies to improve customer engagement. With the use of advanced personalisation strategies, banks are able to establish solid customer relationships, create trust, and ensure long-term loyalty.

Scope for Future Research

While this study provides key insights, future research can explore additional factors influencing customer retention, such as digital banking innovations and regulatory policies. Furthermore, comparative studies between small, medium, and large banks can provide a broader understanding of how personalisation strategies vary across different banking institutions. Future studies may also incorporate qualitative research to gain deeper insights into customer preferences and expectations regarding personalised services.

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