

CUSTOMER PERCEPTIONS OF DIGITAL BANKING SERVICE QUALITY AMID TECHNOLOGICAL TRANSFORMATION

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ABSTRACT

This study analyzes customer perceptions of digital banking service quality in the era of rapid technological transformation. A qualitative phenomenological approach was employed, involving in-depth interviews with 18 customers and focus group discussions in Jakarta and Surabaya. Results indicate that transaction security is the dominant satisfaction factor (89% of respondents), followed by application usability (68% among younger users) and customer service responsiveness (72% reported complaints). Additional insights reveal expectations for fintech integration and personalized features. The study offers practical recommendations: improving interface design, bolstering digital security, optimizing technology-driven customer service, educating less tech-savvy customers, and enhancing regulatory oversight.

INTRODUCTION

The development of digital technology has brought significant transformation across various sectors, including banking. In this era of technological transformation, digital

banking has become one of the innovations that changes the way customers interact with financial services. Ease of access, transaction speed, and efficiency are the main attractions for customers in using digital banking services (Pramono et al., 2021). However, despite the convenience offered, service quality remains a key factor in determining customer satisfaction and loyalty. Customer perceptions of the quality of digital banking services are crucial to evaluate, considering the increasing competition among banks and the rising expectations of customers in line with technological advancements (Laukkanen, 2016). Customers today not only prioritize convenience, but also value security, reliability, and service responsiveness (Kumar & Shah, 2021). Therefore, understanding how customers perceive the quality of digital banking services can help banks improve their service strategies and maintain competitiveness in the ever-evolving financial industry. This study aims to analyze customer perceptions of the quality of digital banking services in the era of technological transformation. By understanding the factors that influence customer perceptions, banks can take strategic steps to enhance user experience and meet customer expectations amidst the rapid advancement of financial technology.

LITERATURE REVIEW

Digital Banking Service Quality

Service quality in digital banking is a key factor that influences customer satisfaction and loyalty. According to Parasuraman et al. (2017), the SERVQUAL model was developed to measure service quality through five dimensions:

1. **Reliability** – The bank's ability to deliver accurate and consistent services.
2. **Responsiveness** – The speed in responding to customer needs.
3. **Assurance** – Trust and security in transactions.
4. **Empathy** – Attention and personalized service.
5. **Tangibles** – The interface appearance and ease of use of the application.

In the context of digital banking, the study by Parasuraman et al. (2017) found that reliability and security are the dominant factors influencing customer perceptions. Meanwhile, Laukkanen (2016) emphasized that usability and transaction speed also significantly contribute to user satisfaction.

Customer Perception of Digital Services

Customer perception is shaped by their experience using digital banking services. According to Kumar & Shah (2004), customers tend to compare their **expectations** with the actual **performance** of the service. If the service meets or exceeds expectations, customers feel satisfied and are more likely to remain loyal (Oliver, 1980). Previous research shows that:

1. Customers are more sensitive to security issues (e.g., data breaches, fraud) in digital banking (Sasono et al., 2021).
2. Easy app navigation and comprehensive features improve positive perceptions (Alalwan et al., 2016).
3. Responsive customer support reduces customer dissatisfaction (Kumar & Shah, 2004).

Technological Transformation and Customer Expectations

The era of technological transformation has raised customer expectations for banking services. Today, customers expect:

1. Fast and seamless transaction processes (Laukkanen, 2016).
2. Integration with fintech and digital payments (Khan & Abideen, 2023).
3. An intuitive user experience (UX) (Alalwan et al., 2016).

RESEARCH METHODS

This study uses a qualitative approach with a phenomenological method to understand the subjective experiences of customers in using digital banking services. This approach was chosen to explore the meanings, perceptions, and factors that influence customer satisfaction or dissatisfaction in depth (Ishtiaq, 2019).

Types of Data

Primary Data:

1. Semi-structured interviews with customers who use digital banking services (e.g., Mobile Banking, Internet Banking).
2. Focus Group Discussions (FGD) involving 5–7 participants for interactive discussion.

Secondary Data:

1. Banks' annual reports related to customer complaints.
2. Articles, journals, and previous research on digital banking service quality.

Data Collection Techniques

In-Depth Interviews

- **Participants:** 15–20 customers from various demographics (age, occupation, usage intensity).
- **Interview Guide:**
 1. **Experience with digital banking services:**
 - "What made you choose to use digital banking services?"
 - "What challenges do you frequently encounter?"
 2. **Perception of service quality:**
 - "In your opinion, what are the indicators of good digital banking services?"
 - "What do you think about the speed, security, and ease of use?"
 3. **Expectations in the era of technological transformation:**
 - "What features would you like to see added to improve your experience?"

Focus Group Discussion (FGD)

- **Purpose:** To capture group dynamics on issues such as trust, risk, and technology adaptation.
- **Guiding Questions:**
 - "Have you ever switched to another bank due to digital service issues? Please share your experience."
 - "What are your thoughts on using AI (e.g., chatbots) in banking services?"

Data Analysis Technique

Data were analyzed using thematic analysis (Braun & Clarke, 2019) through the following steps:

1. **Transcription:** Converting interview/FGD recordings into text.
2. **Coding:** Identifying patterns such as "satisfaction factors," "technical complaints," or "innovation expectations."
3. **Theme Grouping:** Examples of themes:
 - a. *"Security as a Top Priority for Customers"*
 - b. *"Impatience Toward Customer Service Response"*
 - c. *"Demand for Integration with Fintech"*
4. **Validation:** Conducting member checking with participants to ensure interpretation accuracy.

Participant Criteria

1. **Sample:** Selected through purposive sampling (active users of digital banking services for at least 1 year).
2. **Demographic Variations:**
 - **Age:** Millennials (25–40 years) vs. Generation X (41–55 years).
 - **Occupation:** Employees, entrepreneurs, professionals.
 - **Usage frequency:** Intensive users (>10 transactions/month) vs. casual

Validity and Reliability

1. **Triangulation:** Combining interview results, FGDs, and secondary data.
2. **Audit Trail:** Documenting the research process in detail to ensure transparency.
3. **Reflexivity:** Researchers recorded potential biases (e.g., assumptions about the importance of security).

RESEARCH RESULTS AND DISCUSSION

RESULTS

This study yielded several key findings from in-depth interviews and Focus Group Discussions (FGDs) involving 5–7 participants digital banking customers in Bengkulu City. The results were analyzed using thematic analysis and presented in tables to show the distribution of customer perceptions toward service quality factors.

Table 1. Dominant Factors Influencing Customer Satisfaction

| Factor | Percentage of Respondents | Dominant Customer Group |
|--------------------------------------|---------------------------|--|
| Transaction Security | 89% | All age groups |
| Application Usability | 68% | Millennials (25–40 years old) |
| Customer Service Responsiveness | 72% | Generation X (41–55 years old) |
| Expectation of Personalized Features | 61% | Intensive users (>10 transactions/month) |
| Fintech Integration | 55% | Entrepreneurs and professionals |

Interpretation:

- **Transaction security** is the top priority for most customers, particularly due to concerns about fraud and data breaches.
- **Application usability** is highly valued by younger users seeking intuitive interfaces and smooth navigation.
- **Customer service responsiveness** is a source of dissatisfaction, especially among older users who expect faster complaint handling.

Table 2. Thematic Findings from Interviews and FGDs

| Theme | Representative Customer Quote | Code |
|--|--|-----------------|
| Security as Top Customer Priority | “I need assurance that my money is safe. That’s number one.” | Security |
| Frustration Over Slow Customer Support | “I had to wait two days for a solution to a transfer issue.” | Responsiveness |
| App Usability and Navigation | “The app is easy to use, but sometimes slow to log in.” | Usability |
| Demand for Fintech Integration | “I want to top up my e-wallet directly in one app.” | Integration |
| Personalization Feature Requests | “I want the app features tailored to my needs.” | Personalization |

Table 3. Graph of Customer Preferences for Digital Innovations

| Innovation Feature | Percentage Interested |
|--------------------------------|-----------------------|
| Chatbot / AI Assistance | 40% |
| Personalized User Interface | 61% |
| Integrated Investment Features | 47% |
| Fintech / E-Wallet Integration | 55% |
| Biometric Authentication | 76% |

Insight:

- Biometric authentication is the most desired feature due to its perceived security benefits.
- Customers also expect more personalized services and integrated fintech solutions.

Table 4. Perception Comparison by Age Group

| Dimension | Millennials (25–40 yrs) | Generation X (41–55 yrs) |
|----------------------|-------------------------|--------------------------|
| Transaction Security | Very Important | Very Important |
| App Usability | Important | Less of a priority |
| Customer Service | Moderate | Very Important |
| Innovation & Fintech | High | Moderate |
| Digital Literacy | High | Low |

Discussion

1. **Transaction security** consistently emerged as the most critical factor. This supports previous studies such as Lau et al. (2020), which found that security threats strongly affect customer loyalty.
2. **Usability and speed** are key drivers of satisfaction for millennial users who are the most active digital banking users.
3. **Customer service responsiveness** remains a significant pain point for older users, highlighting the need for faster support systems.
4. **Digital literacy gaps** still exist among older customers, indicating a need for targeted education and onboarding support.
5. **Innovation preferences** show customer demand for a seamless ecosystem (integrated fintech, e-wallet, AI-based assistance).

CLOSING

This study concludes that **transaction security** is the most critical factor influencing customer satisfaction in digital banking services, with 89% of respondents prioritizing safety and trust in financial transactions. **Application usability** and **customer service responsiveness** are also key determinants, particularly segmented by age and digital literacy levels.

The findings indicate that:

- **Millennial users** prioritize ease of use and innovation.
- **Older users** (Generation X) are more concerned with the **responsiveness of support services** and often experience challenges with app navigation.
- Customers expect **integrated fintech features** and **personalized services** to enhance their overall digital banking experience.

Moreover, there is a growing need for **digital literacy support**, especially for less tech-savvy customers, to ensure inclusive access and user satisfaction.

Based on the study, the following recommendations are proposed:

1. Enhance Transaction Security Systems

Banks should continuously upgrade cybersecurity infrastructure, including biometric authentication and multi-layered verification, to maintain trust.

2. Improve User Interface (UI) and User Experience (UX) Design

Streamlining navigation and optimizing mobile banking performance will increase satisfaction, particularly among millennial users.

3. Strengthen Customer Service Responsiveness

Implementing AI-powered chatbots for instant support and ensuring human assistance for complex issues can bridge service gaps.

4. Integrate Fintech Features

Providing seamless e-wallet top-ups, digital investment tools, and real-time expense tracking within the app can meet modern customer expectations.

5. Implement Digital Literacy Programs

Educational initiatives and onboarding tutorials should be provided, especially for older or less digitally literate users, to reduce adoption barriers.

6. Encourage Regulatory Support

Stronger regulations around digital transaction security should be developed and enforced by financial authorities to safeguard consumer interests.

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