



Impact of Service Quality, Trust and Perceived Risk on Customer Satisfaction in India's Digital Payment Industry

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ABSTRACT

The rapid growth of digital payment systems in India has transformed the financial ecosystem and significantly changed customer transaction behavior. This research paper examines the impact of service quality, trust, and perceived risk on customer satisfaction in India's digital payment industry. The study is based on primary data collected from 480 respondents through a structured questionnaire using convenience sampling. Statistical tools such as percentage analysis, ranking analysis, chi-square test, correlation analysis, and regression analysis were applied using SPSS and MS Excel.

The findings reveal that young users aged 18–25 are the dominant users of digital payment applications. Google Pay, PhonePe, and Paytm are the most preferred platforms among respondents. Service quality and trust show a strong positive relationship with customer satisfaction, while perceived risk demonstrates a weak and statistically insignificant impact in regression analysis. Trust emerged as the strongest predictor of customer satisfaction. Privacy risk and financial risk remain major concerns among users, especially regarding fraud, refund delays, and data misuse.

The study concludes that improving service quality, strengthening security systems, enhancing transparency, and reducing technical errors are essential for increasing customer satisfaction and long-term adoption of digital payment systems in India.

Keywords: Digital Payments, UPI, Service Quality, Trust, Perceived Risk, Customer Satisfaction, FinTech, India



INTRODUCTION

India has witnessed extraordinary growth in digital financial services over the last decade. The rise of smartphones, affordable internet services, fintech innovation, and supportive government initiatives such as Digital India and Jan Dhan Yojana have accelerated the adoption of digital payment systems. Unified Payments Interface (UPI) has become the backbone of India's digital economy by enabling instant and secure transactions.

Digital payment systems now play an important role in daily life, including online shopping, bill payments, merchant transactions, transportation payments, and peer-to-peer money transfers. However, the rapid growth of digital payment systems has also created concerns regarding service quality, customer trust, data privacy, fraud, and transaction security.

Customer satisfaction is considered one of the most important determinants of long-term success for digital payment companies. Service quality, trust, and perceived risk significantly influence customer experience and behavioral intention. Therefore, understanding these variables is essential for improving customer retention and sustaining growth in the digital payment ecosystem.

DIGITAL PAYMENT INDUSTRY OVERVIEW

India has become one of the fastest-growing digital payment markets in the world. UPI transactions crossed billions of transactions every month, making India a global leader in real-time digital payments. Major players such as PhonePe, Google Pay, Paytm, BHIM UPI, and Amazon Pay dominate the market.

The expansion of digital payments has been supported by

- Increasing smartphone penetration
- Affordable internet access
- Government support for cashless transactions
- Fintech innovation
- Growing e-commerce and online service industries

Despite the strong growth, users still face challenges such as transaction failures, delayed refunds, data privacy concerns, and cyber fraud. Therefore, maintaining customer satisfaction is becoming increasingly important for payment platforms.



REVIEW OF LITERATURE

- Agarwal, Malik, and Gautam (2024) found that service quality and convenience significantly improve customer loyalty toward digital payment platforms.
- Dhamija, Manrai, and Dhamija (2025) concluded that financial service quality positively affects trust, customer satisfaction, and loyalty.
- Rani and Rani (2023) identified factors such as usefulness, trust, reliability, convenience, and security as key drivers of customer satisfaction.
- Danny and Reddy (2026) observed that trust is the strongest factor influencing adoption and satisfaction in digital payment systems.
- Alagh et al. (2025) highlighted reliability and responsiveness as the most important dimensions of service quality.
- Soni et al. (2025) concluded that service quality, security, and usefulness significantly affect customer loyalty.
- Upadhyay and Pandey (2024) emphasized the role of perceived risk and threat perception in influencing digital payment adoption.

RESEARCH GAP

Previous studies mainly focused on individual factors such as service quality, trust, or technology adoption. However, limited studies have integrated service quality, trust, and multidimensional perceived risk together to examine their combined influence on customer satisfaction in India's digital payment industry. In addition, comparative understanding across different demographic groups remains limited.

OBJECTIVES OF THE STUDY

1. To examine the usage pattern of digital payment apps among users.
2. To examine the impact of service quality on customer satisfaction in India's digital payment industry.
3. To analyze the influence of trust on customer satisfaction in digital payment platforms.
4. To evaluate the effect of multidimensional perceived risk on customer satisfaction.

RESEARCH METHODOLOGY

The study uses a descriptive research design to analyze customer perceptions regarding digital payment systems. Both primary and secondary data sources were used. Primary data was collected through a structured questionnaire distributed through Google Forms.

Sampling Method: Convenience Sampling

Sample Size: 480 respondents

Tools Used:

- Percentage Analysis
- Ranking Analysis
- Chi-Square Test
- Correlation Analysis
- Regression Analysis

The collected data was analyzed using SPSS and Microsoft Excel.



HYPOTHESIS OF THE STUDY

Based on the objectives of the study, the following hypotheses were formulated:

➤ CHI-SQUARE

H₀₁: There is no significant association between the variables namely, age and frequent usage of Digital Payment apps.

H₁₁: There is significant association between the variables namely, age and frequent usage of Digital Payment apps.

➤ CORRELATION ANALYSIS

H₀₂: There is no significant relationship between Service Quality (SQ) and Customer Satisfaction (CS).

H₁₂: There is a significant positive relationship between Service Quality (SQ) and Customer Satisfaction (CS).

H₀₃: There is no significant relationship between Trust (TR) and Customer Satisfaction (CS).

H₁₃: There is a significant positive relationship between Trust (TR) and Customer Satisfaction (CS).

H₀₄: There is no significant relationship between Perceived Risk (PR) and Customer Satisfaction (CS).

H₁₄: There is a significant negative relationship between Perceived Risk (PR) and Customer Satisfaction (CS).

➤ REGRESSION ANALYSIS

H₀₅: Service Quality does not have a significant impact on Customer Satisfaction.

H₁₅: Service Quality has a significant positive impact on Customer Satisfaction.

H₀₆: Trust does not have a significant impact on Customer Satisfaction.

H₁₆: Trust has a significant positive impact on Customer Satisfaction.

H₀₇: Perceived Risk does not have a significant impact on Customer Satisfaction.

H₁₇: Perceived Risk has a significant impact on Customer Satisfaction.

DATA ANALYSIS AND INTERPRETATION

The study found that 42.5% of respondents belong to the 18–25 age group, indicating that young individuals are the primary users of digital payment apps. Male and female participation in the survey was nearly equal, providing balanced gender representation.

Google Pay emerged as the most preferred digital payment application, followed by PhonePe and Paytm. Around 31% of respondents reported using digital payment apps daily, highlighting the increasing dependence on digital transactions.

Among service quality dimensions, 24/7 availability and transaction speed received the highest ratings. Trust-related dimensions such as transparency in fees and fraud protection also scored positively. Privacy risk and financial risk were identified as the most concerning risks among users.

The chi-square test confirmed a significant association between age and frequency of usage of digital payment apps. Correlation analysis showed that service quality and trust have a strong positive relationship with customer satisfaction. Regression analysis confirmed that trust is the strongest predictor of customer satisfaction.



MAJOR FINDINGS

- Young users aged 18–25 are the most active users of digital payment apps.
- Google Pay is the most preferred digital payment platform among respondents.
- Service quality significantly influences customer satisfaction.
- Trust is the strongest determinant of customer satisfaction.
- Privacy risk and financial risk are major concerns among users.
- Transaction failures and refund delays negatively affect user experience.

RECOMMENDATIONS

- Digital payment companies should improve app performance and reduce technical errors.
- Security systems should be strengthened to reduce fraud and hacking concerns.
- Companies should improve transparency regarding charges, policies, and refund procedures.
- Customer support services should be made more responsive and efficient.
- Digital awareness and financial literacy programs should be promoted in rural areas.

CONCLUSION

The study concludes that digital payment systems have become an integral part of India's financial ecosystem. Service quality and trust significantly influence customer satisfaction and long-term usage behavior. Although users are generally satisfied with digital payment platforms, concerns regarding privacy, security, and transaction failures still exist.

Trust emerged as the most influential factor affecting customer satisfaction, followed by service quality. Therefore, digital payment companies should focus on improving reliability, transparency, security, and customer support systems to sustain user confidence and increase digital payment adoption in India.

The study contributes to the understanding of customer behavior in India's rapidly evolving digital payment industry and provides practical insights for fintech companies, banks, researchers, and policymakers.

FUTURE SCOPE OF THE STUDY

Future research can include larger and more geographically diverse samples across India. Researchers may also examine additional variables such as digital literacy, income level, technological readiness, artificial intelligence-based fraud detection, and behavioral intention toward emerging technologies such as Central Bank Digital Currency (CBDC).



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