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The Effects of Financial Literacy, Service Quality, and Corporate Reputation on Customer Investment Loyalty: The Mediating Roles of Trust and Perceived Value

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ABSTRACT

In the competitive financial services sector, firms need to align financial literacy initiatives with marketing and management strategies to sustain customer loyalty. Financial literacy empowers customers to make informed choices, while service quality and corporate reputation act as critical relational drivers. However, limited research had examined how these factors jointly shape customer investment loyalty through psychological and value-based mechanisms. This study examined the effects of financial literacy, service quality, and corporate reputation on customer investment loyalty, with the mediating roles of trust and perceived value. A quantitative research design was employed. Data were collected through structured questionnaires from 400 individual investors and clients of financial institutions in Pakistan. The hypothesized model was tested using structural equation modeling (SEM). The results revealed that financial literacy, service quality, and corporate reputation significantly enhanced customer investment loyalty. Moreover, trust and perceived value partially mediated these relationships, confirming their critical roles in translating marketing and management practices into long-term customer commitment. The study contributed to marketing and management literature by integrating financial literacy into loyalty research and highlighting the mediating roles of trust and perceived value.

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1.0 Introduction

The competitive and innovation-driven characteristics of the financial services industry is far more advanced than it once was. Institutions now seek to gain differentiation by augmenting trust, perceived value, and nurturing customer loyalty. Digital channels and tools as well as the broad availability of data have helped to empower customers unlike before in making individual financial decisions. However, empowerment without requisite knowledge is a sure way to loss of confidence and poor financial outcomes (Umeaduma, 2023). The investment climate, such as in Pakistan, is forward-looking as well as uncertain. Financial institutions have to foster investor loyalty while alleviating the marketing, financial education, and management silos. There is also a need to broaden the focus from financial services customer management to customer financial literacy in conjunction with service, reputation, and provider relationship management to attain market loyalty and financial system market stability. Financial institutions no longer have the luxury of depend ing only on traditional competitive advantage sources. There is the need to improve the customer, reputation, and value outcomes to retain investors (Arnaut & Bećirović, 2023).

Simultaneously, the new financial setting is marked by unprecedented intricacy, continual advents in financial technology, and rising customer expectations. Clients have become more critical. They do not just look for the goal success from service providers, but also look at the wider relationship and reputation aspects of the organizations. Service quality, which offered a measure of operational success in the past, is a multifaceted construct from the customer's lens measuring financial institutions on reliability, responsiveness, assurance, empathy, and tangibles. In the same way, reputation has become important in engendering trust, acting as a marker of trustworthy, moral, and dependable conduct in business for the long term. In addition, the individual's financial literacy, the clear understanding of financial knowledge and applying it in decision making, coupled with the factors of the previous paragraph, has a significant influence on the behavior of individuals towards investment and client retention (Bogunjoko, 2022). However, this is not the complete set of factors in describing customer loyalty. There are other psychological factors, such as trust and perceived value, which transform the practices of a company into trustful and valuable relationships (Watanabe et al., 2020). This suggests a deeper, more complex phenomenon which deserves further research.

Financial literacy is described as the ability to acquire, process, and apply financial information in order to make informed savings, investment, and financial planning decisions. It is about understanding concepts and having the confidence and the ability to put them to use. A financially literate customer is more likely to make Reasonable decisions, perform rational risk analyses and evaluate investment options to achieve personal financial objectives and, as a result, establish stronger relationships with financial service providers. The other part, service quality, is the degree to which financial service institutions offer and fulfill customer expectations with respect to reliability, responsiveness, assurance, empathy, tangibility and other dimensions (Wang et al., 2023). Greater service quality would increase customer satisfaction, reduce the intention to churn, and as a result, strengthen and foster relational bonds that encourage loyalty. Corporate reputation is the aggregate perceptions of an organization's stakeholders on the trustworthiness, ethical behavior, competence, and social responsibility of an organization. In financial markets, reputation is extremely important because the customers have incomplete information on the quality and safety of a financial product, and thus use the reputation of the institution as a trust heuristic to make decisions (Cerda Suarez et al., 2020).

The Antecedent Variables summed together form the foundation of the loyalty-building process, influencing the mind of the customers toward the financial institution and evaluating the relationships with them over time.

Incorporating trust and perceived value adds to this framework by explaining the psychological and value-additive pathways through which institutional behavior results in loyalty. Trust is often defined as the willingness to accept reliance on the financial institutions in the presence of uncertain conditions, which results in the perception of honest and dependable entities. While trust is crucial in any customer relationship, relationships will not exist without needing because the institution causes unnecessary risks on the customer. Perceived value in this context is defined as the balance of the financial services with the payment, which can be monetary, time, or psychological (Zietsman et al., 2020). In situations where the value of the services is perceived high, loyalty toward the financial institution is increased. Trust and perceived value are, therefore, important intermediaries in the loyalty outcome, coping with the financial literacy, service quality and institution reputation as abstract constructs. The proved theoretical link emphasizes both rational and emotional nuances in customer loyalty, which is to say the relationship is not merely cause and effect (Sottolichio et al., 2025).

This study stems from two theories in customer value and trust that underpin long-lasting relationships: relationship marketing and social exchange. “Trust” and “perceived value” are two elements that act as a support for relationship maintenance. An institution, based on the relationship marketing theory, achieves loyalty through an ongoing process of customer relationship building, maintenance, and enhancement. Encouraged by relationship maintenance costs and perceived benefits, social exchange theory proposes that people assess relationships in terms of Give and take (Kim & Qu, 2020). Financial literacy improves a customer’s ability to assess costs and benefits, and service quality and reputation affect the perceived fairness and trust. Investment loyalty is built on customer expectation and institutional practice gaps closed by trust and perceived value. By focusing on frameworks of the theory that explains the relationship in financial contexts, the study elaborates on the causes of customer loyalty (Negi & Jaiswal, 2024).

Although these constructs have been acknowledged, studies concerning them are lacking. Most previous studies on financial literacy focused on its association with financial behavior, financial inclusion, or investment outcome and overlooked its potential value in achieving relational outcomes, such as customer retention. Likewise, studies on service quality and corporate reputation have focused on customer satisfaction and retention, ignoring psychological factors in investment contexts. Furthermore, while trust and value are abundant in marketing literature, their positions as mediators in the triadic relationship between financial service literacy, service quality, and the reputation in relation to customer investment loyalty have been largely overlooked—most especially in emerging markets with high volatility and low institutional trust. This lack of consolidation hampers our understanding of how these constructs together affect loyalty and stifles theoretical progress and practical application of the financial services industry. The issue of concern in this research rests on the lack of consideration on the influence of financial literacy, service quality, and corporate reputation on customer investment loyalty through the trust and perceived value frameworks as mediators (Özkan et al., 2020). While all these constructs have been studied individually, the relationships between them have not been comprehensively examined, particularly in regard to the context of Pakistan's financial sector. The lack of such research with regard to Pakistani financial institutes limits their ability to formulate integrated strategies that address the cognitive and relational aspects of customer behavior. This understanding becomes crucial in contexts where financial literacy is patchy, and trust in financial institutions is tenuous. This study seeks to address this gap through the application of structural equation modeling as a theoretically and empirically grounded approach with the aim of advancing understanding pertaining to investment loyalty.

2.0 Literature Review

The growing importance of customer loyalty within the financial services sector has been examined through the lens of relationship marketing theory and social exchange theory. Both examine the value and trust factors of long-term relational exchanges between customers and institutions. Within relationship marketing theory, trust is built through continued interactions of devotion and value enhancement and is a developing factor of customer loyalty rather than simple satisfaction. Social exchange theory expands this by stating customers regard relationships with financial institutions as transactions, and loyalty is minted when the relationship is more profitable than costly and there is perceived equity and reciprocity within the relationship (Patel, 2025). Both perspectives assert that loyalty is driven by rational and emotional forces. The intangible nature of financial services, risk and delayed outcomes, and the financial literacy, service quality, and corporate reputation of the providers complicate trust and value perceptions (Elshaer et al., 2025).

'The attitudes and skills that comprise financial literacy have influenced investment behaviors and loyalty outcomes.' Here, I first define financial literacy as the skills and competencies involved in handling financial resources. Customers who understand the concepts of finance and the financial market are able to make investment decisions, evaluate risks and returns, seek out different products, and make goal congruent decisions. There are many studies worldwide that demonstrate a strong correlation between financial literacy and appropriate investment decisions. Rational decision makers who have financial literacy, and those who are i financial services receiving education, show confidence and loyalty towards the institution (Bhat et. al, 2025). In emerging markets, financial literacy is valuable because it reduces asymmetries in information and assists investors in navigating complex financial systems. Trust is built with literate investors who can easily tell if institutions are acting in their interests and recognize the value of the services offered. Financial literacy in this context and many others is a relational resource, not just a cognitive one, leading to greater loyalty (Cribbs, 2025).

3.0 Methodology

The research design, which was utilized in this study, was a quantitative and cross-sectional research design to investigate the impacts of financial literacy, quality of services, and corporate reputation on customer investment loyalty and trust and perceived value were the mediating variables. The structured, self-administered questionnaire was used to collect data based on the established and validated scales in the literature to achieve the content validity. The population targeted included individual clients and investors of financial institutions in Pakistan. Convenience sampling was done to get a total of 400 usable responses. Each of the measurement items had to be rated on a five-point Likert scale of strongly disagree, strongly agree. The data were filtered with missing values, normality and common method bias before they were tested to test the hypothesis, to ascertain the quality and appropriateness of the data in the multivariate analysis.

The testing of the proposed research model was conducted with the help of the Partial Least Squares Structural Equation Modeling (PLS-SEM) that is applied to the complex model that includes numerous constructs and mediation effects. The analysis had been done in two steps, first by evaluating the measurement model and then analysing the structural model. The determination of reliability and validity was done according to Cronbach alpha and composite reliability, average variance extracted (AVE), HTMT ratios and variance inflation factor (VIF). SRMR, NFI, and RMS index were used to evaluate model fit. Path coefficients, t-values, and p-values generated in the process of bootstrapping were used to test hypotheses, whereas the mediation effects were analyzed by using an indirect effect analysis. This analysis method provided a strong estimation of both direct and indirect relationship between the study variables.

Results

4.1 Reliability and Convergent Validity (Outer Loadings, CR, AVE)

Table 4.1 Reliability and Convergent Validity

Construct	Cronbach's Alpha	Composite Reliability (CR)	Average Variance Extracted (AVE)
Financial Literacy	0.86	0.90	0.64
Service Quality	0.88	0.92	0.68
Corporate Reputation	0.84	0.89	0.62
Trust	0.87	0.91	0.66
Perceived Value	0.85	0.90	0.65
Investment Loyalty	0.89	0.93	0.70

Evidence from the reliability and convergent validity assessments demonstrate that the constructs in the model reflect strong internal consistency and convergent validity. All variables achieved a Cronbach's alpha score between 0.84 and 0.89, surpassing the 0.70 threshold which indicates reliability. Further, the composite reliability (CR) score ranged from 0.89 to 0.93, showing that the measurement items reliably accounted for the distinct constructs. Concerning convergent validity, the average variance extracted (AVE) scores for the constructs ranged between 0.62 and 0.70, which surpasses the acceptable 0.50 level, thus a substantial portion of the variance associated with the items was explained by the construct. Overall, these findings affirm that the measurement model operates with reliability and validity, thus the structural analysis may proceed.

Discriminant Validity – HTMT (Heterotrait-Monotrait Ratio)

Table 4.2 Discriminant Validity – HTMT

Constructs	FL	SQ	CRP	TR	PV	IL
Financial Literacy (FL)	–	0.62	0.58	0.55	0.59	0.61
Service Quality (SQ)		–	0.66	0.63	0.60	0.65
Corporate Reputation(CRP)			–	0.64	0.62	0.68
Trust (TR)				–	0.67	0.70
Perceived Value (PV)					–	0.72
Investment Loyalty (IL)						–

The results from the HTMT discriminant validity analysis demonstrate that all constructs remain distinct from one another as all HTMT ratios remain below the conservative criterion of 0.85. Furthermore, the ratios also remain within the range of 0.55 to 0.72. This indicates that while the constructs are related, they are not excessively overlapping, thereby affirming discriminant validity. In the case of financial literacy, the relationships with other constructs, for instance, trust (0.55) and perceived value (0.59), indicate moderate associations which do not imply redundancy; service quality and corporate reputation also show acceptable distinction with other variables.

4.3 Collinearity Assessment (VIF Values)

Table 4.3 Collinearity Assessment

Construct → Indicators	VIF Range
Financial Literacy	1.45–2.10
Service Quality	1.32–2.05
Corporate Reputation	1.28–1.95
Trust	1.50–2.20
Perceived Value	1.40–2.00

All reported constructs show variance inflation factor (VIF) values below 5.0, which is the accepted standard. Even the more conservative threshold of 3.0 suggests that the measurement model is not afflicted by multicollinearity. For example, VIF values of the financial literacy construct is between 1.45 and 2.10, service quality is between 1.32 and 2.05, corporate reputation is 1.28 to 1.95, trust is 1.50 to 2.20, and perceived value is 1.40 to 2.00. The reported values also indicate that while the interrelations among the measurement indicators of each construct are of no substantive excess redundancy, discerning valid constructs are nontrivial.

4.4 Model Fit Indices (PLS-SEM)

Table 4.4 Model Fit Indices

Fit Index	Value	Recommended Threshold
SRMR	0.061	< 0.08 (good fit)
NFI	0.91	> 0.90 acceptable
RMS_theta	0.12	< 0.12 acceptable

The indicators of model fit signify that the structural model has an adequate level of fit overall. The standardized root mean square residual (SRMR) has a value of 0.061 which is less than the value of 0.08. This suggests there is a good fit with regards to the observed and predicted correlation. The normed fit index (NFI) value of 0.91 is also greater than the value of 0.90 which verifies that the model explains the data better than the null model and fits acceptable standards. The value of the RMS_theta of 0.12 is just within the acceptable limit which means there is low residual variance of the outer model and which does not raise any model misspecification issues. Overall, the results of the analysis all provide confidence that the fit of the model is adequate and the structural relationships in the analysis are valid and reliable.

4.5 Structural Model – Path Coefficients and Hypothesis Testing

Table 4.5 Structural Model – Path Coefficients and Hypothesis Testing

Hypothesis	Path	β (Beta)	t-value	p-value	Supported?
H1	Financial Literacy → Investment Loyalty	0.21	3.12	0.002	Yes
H2	Service Quality → Investment Loyalty	0.25	3.56	0.001	Yes
H3	Corporate Reputation → Investment Loyalty	0.18	2.95	0.003	Yes
H4	Trust → Investment Loyalty	0.30	4.22	0.000	Yes
H5	Perceived Value → Investment Loyalty	0.27	3.89	0.000	Yes
H6	Financial Literacy → Trust	0.24	3.45	0.001	Yes
H7	Financial Literacy → Perceived Value	0.20	3.02	0.003	Yes
H8	Service Quality → Trust	0.28	4.01	0.000	Yes
H9	Service Quality → Perceived Value	0.22	3.37	0.001	Yes
H10	Corporate Reputation → Trust	0.26	3.95	0.000	Yes
H11	Corporate Reputation → Perceived Value	0.23	3.28	0.001	Yes

Analyses confirm each of the eleven hypotheses with p-values lower than .01 and critical t-values confirming the hypotheses as well. In the direct effects, financial literacy advocates ($\beta = 0.21$, $p = 0.002$) as well as service quality ($\beta = 0.25$, $p = 0.001$) and corporate reputation ($\beta = 0.18$, $p = 0.003$) also positively impact investment loyalty, thus confirming their antecedent hypotheses. Trust ($\beta = 0.30$, $p = 0.000$) and perceived value ($\beta = 0.27$, $p = 0.000$) also strongly and directly predict loyalty, thus confirming the mediating importance of these constructs.

Furthermore, the antecedents considerably influence these mediators: financial literacy has a positive effect on trust ($\beta = 0.24$, $p = 0.001$) and on perceived value ($\beta = 0.20$, $p = 0.003$); trust is very strongly enhanced by service quality ($\beta = 0.28$, $p = 0.000$) and perceived value is strongly enhanced by service quality ($\beta = 0.22$, $p = 0.001$); and reputation positively affects trust (β = 0.26, p = 0.000) and perceived value (β = 0.23, p = 0.001). Altogether, these findings confirm the proposed model by illustrating that financial literacy, service quality, and corporate reputation have positive direct impact on customer loyalty to investments, and also positively influence loyalty indirectly, through the mediating effects of trust and perceived value, explaining loyalty for financial services.

4.6 Indirect Effects (Mediation via Trust and Perceived Value)

Table 4.6 Indirect Effects

Path	Indirect Effect	t-value	p-value	Mediation
Financial Literacy → Trust → Loyalty	0.07	2.95	0.003	Partial
Service Quality → Trust → Loyalty	0.08	3.18	0.002	Partial
Corporate Reputation → Trust → Loyalty	0.08	3.25	0.001	Partial
Financial Literacy → Perceived Value → Loyalty	0.06	2.72	0.007	Partial
Service Quality → Perceived Value → Loyalty	0.07	3.01	0.003	Partial
Corporate Reputation → Perceived Value → Loyalty	0.06	2.84	0.005	Partial

The mediation analysis shows that trust and perceived value fit into the framework of relationship building as significant *but* partial mediators between the primary antecedents and investment loyalty. During the analysis, it was noted that trust had an indirect influence on each of the loyalty predictors– financial literacy, service quality, and corporate reputation– which had a nominal impact of between 0.07 and 0.08 and were significant at the 1% level ($p < 0.01$). Thus, these predictors cultivated loyalty as a result of their influence on the confidence customers held in their financial institutions. Likewise, the three antecedents also had an indirect impact on loyalty through *perceived value, * with values in the range of 0.06 and 0.07, which were significant at the 1% level. Thus, the customers' evaluations of the benefit-cost trade-offs were critically central in the translation of the predictor organizational practices and customer capabilities into loyalty. Since all mediations are partial, it suggests that financial literacy, service quality, and corporate reputation contribute to loyalty directly and through psychological and evaluative influences. This underscores the need to achieve loyalty through trust and perceived value as building psychological relationships through these factors

5.0 Discussion

This study's findings represent strong empirical evidence for the thesis that financial literacy, service quality, and corporate reputation are vital elements in determining customer investment loyalty, both directly and indirectly through the mediating variables of trust and perceived value. The substantial positive relationship between financial literacy and loyalty indicates the importance of customer knowledge in maintaining long-term financial relationships. When customers understand and have the tools needed to analyze financial products, assess risk and provider credibility, and make confident and secure investment choices, they are less likely to be financially exploited and more likely to retain the services of their provider for the long-term. Such competence builds market resilience and enhances perceived value and loyalty. These findings are consistent with the literature that has identified financial literacy as facilitating decision-making and serving as a protective shield against financial market exploitation.

Contributions

Ahmed Tisman Pasha: Problem Identification, Literature search

Farhan Raza: Data Analysis

Taham Aftkhar: Data Collection, Drafting

Conflict of Interests/Disclosures

The authors declared no potential conflicts of interest w.r.t this article's research, authorship, and/or publication.

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