

Impact of AI-Based Financial Services on Customer Loyalty: Mediating Role of Customer Trust

Kainat Umer¹ Fahad Asghar² Umar Akbar³

¹ M.Phil. Scholar, School of Management Sciences, Quaid-i-Azam University, Islamabad, Pakistan.

Email: kainatumer045@gmail.com

² PhD Scholar, Department of Management Sciences, Qurtuba University of Science and Information Technology, Dera Ismail Khan, Khyber Pakhtunkhwa, Pakistan. Email: fahadasghar514@gmail.com

³ Lecturer (Commerce), Department of Commerce, Thal University, Bhakkar, Punjab, Pakistan. Email: umar.akbar@tu.edu.pk

ABSTRACT: The growing trend of using Artificial Intelligence (AI) in the Pakistani banking and financial services (BFS) industry has transformed customer experience by making financial transactions quicker, more personalized, and secure. AI-powered technologies, including intelligent chatbots, fraud detection systems, automated customer support, and personalized financial recommendations, have improved service quality and operational efficiency. This exploratory study examines the role of AI in financial services on customer loyalty, with customer trust as the intervening variable in the Pakistani context. A quantitative research design was employed, and data were collected through a structured questionnaire using a 5-point Likert scale from 350 customers of public and private banks in Pakistan. The data were analyzed using the Statistical Package for the Social Sciences (SPSS) to assess reliability, correlation, regression, and mediation relationships. The findings indicate that the impact of AI on customer loyalty is positive and significant in the financial services sector. Customer trust emerged as a crucial aspect of this relationship. When AI-assisted financial services are perceived as safe, reliable, transparent, and secure in protecting personal and financial information, the likelihood of customer loyalty increases. Thus, customer trust serves as a gateway through which AI-driven financial services enhance long-term customer relationships. Key findings emphasize the importance of trust, robust cybersecurity measures, and effective communication in the successful deployment of AI. The study addresses AI adoption in emerging markets, particularly in Pakistan, and offers actionable insights for regulators, banks, and fintech. It emphasizes the importance of trust-based AI solutions and customer-centric strategies to boost trust, satisfaction, and loyalty among customers in a changing financial environment.

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Corresponding Author

Fahad Asghar

✉ fahadasghar514@gmail.com

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Introduction

AI is transforming the design and delivery of finance services at a pace of its own. To make services faster, more accurate, more available and more efficient, banks are using more and more machine learning, natural-language

processing, predictive analytics, biometric recognition, intelligent fraud detection, automated credit assessment, chatbots and personalized recommendation systems. The technologies enable financial institutions to offer customer support around-the-clock, detect suspicious transactions instantly, customize products, and overcome the branch-based service constraints (Akram, Blouch, et al., 2025). In the context of emerging economies, mobile access and digital channels can provide financial services beyond traditional physical structures, making the transition particularly significant (Gomber et al., 2018; Huang & Rust, 2018; Lee et al., 2023).

The financial system is also transitioning towards a technology-driven and inclusive service environment in Pakistan. The National Financial Inclusion Strategy 2024-2028 outlines digital financial inclusion, innovative financial solutions, responsible finance, and a resilient technology-based ecosystem (State Bank of Pakistan, 2024). Within this context, AI in financial services can enhance customer experiences by streamlining processes, minimizing waiting periods, detecting fraud, and offering personalized financial advice. Financial services, however, involve sensitive, irreversible monetary information, and there is a lot of information asymmetry (Akram et al., 2024). So, customers can assess the quality of AI by considering its convenience, usefulness, security, transparency, level of fairness, reliability, and accountability.

Financial services are a market where customers can easily compare digital services, open several accounts, switch between different financial institutions, and utilize fintech substitutes with relatively low effort, which is why customer loyalty is still a strategic concern (Akram et al., 2023). Loyalty involves continued use, preference towards the existing service provider, resistance to switching, positive word of mouth, and willingness to buy more services (Dick & Basu, 1994; Oliver, 1999). If these experiences are true, convenient, personalized, and safe, AI-powered financial services can help to increase loyalty. But technology might not be the solution. The customer has to rely on the competence, reliability, and honesty of the bank and its AI systems to protect the interests of the customer.

That's why we suggest customer trust as the psychological connection between AI financial services and customer loyalty. When the service provider cannot be seen fully by the customers, and their algorithm, data management, or decision rules are still unknown, uncertainty can be reduced with the help of trust (McKnight et al., 2002; Pavlou, 2003). If AI-powered services are dependable, they provide easy-to-understand explanations, safeguard data, and handle issues effectively, users will perceive the institution as reliable (Akram et al., 2024). This trust can then foster ongoing use, referrals, and commitment. However, opaque decisions, privacy considerations, algorithmic bias, service failures, and inadequate complaint processes can erode trust and have a negative impact on loyalty even when the AI has a functional benefit (Glikson & Woolley, 2020; Shin, 2021).

While there is an increasing number of studies that investigate AI acceptance, mobile banking adoption, using a chatbot, the use of robo-advisors, and the levels of satisfaction with digital services, the studies that directly explain how AI-based financial services are connected to customer loyalty through a sense of trust in the context of an emerging economy bank have been limited. There is evidence that AI characteristics affect continuance intention and satisfaction (Alnaser et al., 2023; Lee et al., 2023), that perceived trust is significant when it comes to the adoption of AI in banking (Ikhsan et al., 2024; Lopes et al., 2025), and that trust plays a role in the loyalty of AI-enabled neo-banking and self-service (Kumar et al., 2025; Zungu et al., 2025). To fill this gap, the present study tests the mediating role of customer trust between AI-based financial services and customer loyalty of public and private bank customers in Pakistan.

Literature Review

AI-Based Financial Services

AI-based financial services are any financial service used by customers or on the back end that involves algorithms that can learn, predict, classify, language processing, automation, or autonomous decision support. These services range from intelligent chatbots and virtual assistants to personalized product suggestions, automated customer support, fraud detection and anomaly alerts, biometric authentication, credit scoring, robo-advisory, predictive budgeting, and automated complaint handling. Unlike traditional (digital) banking, AI can learn from data patterns, understand customer requirements, provide personalized responses, and make decisions with minimal direct human input (Huang & Rust, 2018; Puntoni et al., 2020).

The service value of AI financial services can be expressed in terms of efficiency, availability, personalization, reliability, responsiveness, security, and transparency. Efficient AI helps cut down on processing time and customer effort; personalization makes recommendations relevant to customer profiles; reliability and security minimize transaction risk; responsiveness provides customers with immediate assistance; and transparency allows customers to understand how the technology is used to reach or support decision-making (Akram et al., 2025). The research on mobile banking with AI reveals that customer attitudes towards mobile banking with AI are influenced by perceived intelligence, anthropomorphism, service quality, security, and relative advantage, which determine customer satisfaction, trust, and continuance intention (Belanche et al., 2019; Lee et al., 2023; Lopes et al., 2025).

This study's construct is larger than just one AI application. It reflects the customer's general perception of AI-driven financial services provided by a bank, ranging from the usefulness, accuracy, security, personalization, access, and transparency of these services. This is a good way to use AI, since customers are likely to interact with AI as part of a larger banking experience, rather than as a stand-alone tool.

Customer Trust

Customer trust is an attitude of being vulnerable and uncertain in a service delivery relationship with an expectation of competence, integrity, benevolence, and reliability (Mayer, 1995; Rousseau, 1998). Trust exists in digital financial services both institutional and technological. Institutional trust relates to trust in the bank's conduct, the protection of customers' interests, and what happens when problems arise. Technology trust concerns are about confidence in the AI system's accuracy, security, repeatability, and predictability.

In financial services, trust is crucial, particularly when the application is an AI system, as users often do not know the data, models, or decision rules used. They might not be able to confirm and check whether the recommendation is fair, whether the personal information is being handled in an appropriate manner, or whether a decision made by an automatic system can be disputed. As such, the concepts of explainability, security, privacy protection, fairness, and human oversight can serve as markers of trustworthiness (Glikson & Woolley, 2020; Shin, 2021). Trust helps minimize perceived risk, facilitates information sharing, promotes acceptance, and enables customer continued reliance on the service (Gefen et al., 2003; McKnight et al., 2002).

Customer Loyalty

According to Oliver (1999), customer loyalty is a strong intention to use and to recommend a preferred product or service because of favorable options in the market and favorable situational factors. Loyalty exists on two levels, attitudinal and behavioral. Attitudinal loyalty is based on preference, commitment, favorable word of mouth, and resistance to switching, while behavioral loyalty is based on repeat purchase or continued usage (Dick & Basu, 1994). Loyalty in the digital banking context can be manifested in terms of continued use of the bank's mobile and online

service channels, readiness to buy more products, preference for the current bank, and willingness to recommend the bank to others (Akram et al., 2025).

In the electronic and banking service setting, the drivers of loyalty are known: service quality, satisfaction, perceived value, commitment and trust (Anderson & Srinivasan, 2003; Harris & Goode, 2004). With digital services readily available for comparison, and other platforms also available, the loyalty of customers is more likely to rest on the quality of the overall technology-mediated relationship. While AI-driven customer support solutions can enhance customer loyalty by providing personalized, timely, reliable, and secure interactions, customers can become frustrated and cancel their accounts when their interactions are intrusive, inaccurate, discriminatory, or when the challenge is difficult.

Theoretical Foundation

The conceptual model is primarily grounded in the stimulus-organism-response logic and commitment-trust theory. Under the stimulus-organism-response perspective, AI-based financial service features operate as environmental stimuli. These stimuli influence an internal psychological state—customer trust—which subsequently shapes the behavioral response of loyalty. The framework explains why the same technology feature may not directly produce loyalty unless it first creates a favorable internal evaluation.

According to the commitment-trust theory, trust plays a key role in achieving lasting relationship exchanges (Morgan & Hunt, 1994). Vulnerability is a form of consent for financial customers, who give over their personal information and agree to the actions of institutions and algorithms as they make transactions, receive product suggestions, and make decisions about risk. Trust redefines successful service encounters into a relationship-based belief that the service provider is reliable and wants what the customer wants (Asif et al., 2025). This belief drives commitment, usage, and advocacy. This explanation is supported by the technology acceptance and information-systems success theories, which indicate that usefulness, ease, system quality, information quality, and service quality are correlates of post-adoption responses (Davis, 1989; DeLone & McLean, 2003; Venkatesh et al., 2003).

AI-Based Financial Services and Customer Loyalty

AI can bolster loyalty by enhancing the "usefulness" and experience of financial services. Intelligent systems provide 24-hour availability, fast problem resolution, personalized communication, fraud alerts, and more relevant product offerings. These benefits can lower the effort of customers and enhance perceptions of service quality (Javed et al., 2025). Repeatedly getting accurate and convenient AI-based services makes customers more inclined to keep using the service provider, to recommend the service provider to others, and not to switch.

AI-powered service research backs this up. AI has been identified as one of the factors that can drive satisfaction and loyalty (Prentice et al., 2020), and AI assimilation has been demonstrated to enhance the quality of customer relationships and customer performance (Hariguna and Ruangkanjanases, 2024). In the context of banking, Lee et al. (2023) showed that AI attributes positively affect customer satisfaction and continuation intention, while Kumar et al. (2025) found that the quality of AI services in the neo-banking service increases customer loyalty. Therefore, financial services by AI are anticipated to have a positive direct impact on loyalty.

H1: AI-based financial services have a significant positive effect on customer loyalty.

AI-Based Financial Services and Customer Trust

Building trust is about how AI-driven financial services are able to prove their expertise, reliability, honesty, and customer care. Competence is indicated by accurate fraud detection, secure authentication, consistent transactions,

and helpful recommendations. There is integrity and accountability with privacy communication, explanations, and effective human escalation. Relevant but not intrusive personalisation can convey a sense of benevolence and customer orientation.

AI can also foster mistrust when customers feel that they cannot see how their data is being used, feel they have too much data being collected, feel there is bias in the algorithms, lack control over the data, or that there is no human input. Thus, trust relies on two aspects: Technology and responsibility. Security, perceived quality, transparency, and reliability are remarkable antecedents of trust that have been mentioned in the literature on AI adoption in the banking sector (Ikhsan et al., 2024; Lopes et al., 2025). Studies into self-service with AI also indicate that positive AI self-service experiences increase trust in the technology and the AI service provider (Zungu et al., 2025).

H2: AI-based financial services have a significant positive effect on customer trust.

Customer Trust and Customer Loyalty

When financial results rely on the actions of a financial provider, trust helps to reduce the uncertainty customers experience. The more a customer feels they can trust a bank, the more likely they are to keep doing business with the bank, accept recommendations from the bank, share information with the bank, use additional services, and recommend the bank (Khalil et al., 2024). Trust also reduces the appeal of the change, because a trusted relationship is built up from a base of confidence that may be missing from a new relationship.

It's a known correlation between trust and loyalty in e-commerce and financial services. According to Sirdeshmukh et al. (2002), trust is essential to loyalty because it creates value, and Harris and Goode (2004) found that trust is a key moment in the process of building online loyalty. Trust remains one of the most reliable indicators of banking loyalty and the most frequently cited factors for loyalty in banking loyalty reviews, according to Kim et al. (2024). Customer trust is also directly linked with loyalty in the context of AI-powered neo-banking (Kumar et al., 2025).

H3: Customer trust has a significant positive effect on customer loyalty.

Mediating Role of Customer Trust

However, the direct benefits of AI do not automatically equate to being loyal, as the customer is required to draw their own conclusions about the provider based on the implications of the AI. Even though the service is quick, customers might still not be willing to use it if they think that their personal information is not being protected and/or the decision is not fair. Likewise, personalisation can make people more comfortable, but uncomfortable if the source and use of personal information are not transparent (Nawaz, 2025). Trust is the way that customers relate to the observed performance of AI-based services to create a stable relational response.

Customer-centric and accurate, secure, reliable, and transparent AI services build trust in AI and the institution. Once trust is established, perceived risk is diminished, and customers continue to use the existing product/services, recommend, and refuse to switch. The mediation argument is consistent with commitment-trust theory and with digital-service studies showing that trust translates service quality and positive technology experiences into loyalty (Kassim & Abdullah, 2010; Kumar et al., 2025; Zungu et al., 2025). A significant remaining direct effect would indicate partial mediation, meaning that AI-based financial services influence loyalty through trust as well as through direct convenience and performance benefits.

H4: Customer trust significantly mediates the relationship between AI-based financial services and customer loyalty.

Conceptual Framework



Methodology

The study used a positivist, quantitative, and cross-sectional survey design to study the customers of public and private commercial banks in Pakistan. The adults who used at least one AI-powered banking product or service, including an intelligent chatbot, automated customer support, fraud or unusual-transaction alerts, biometric authentication, personalized recommendations, or an AI-enabled mobile banking service, were targeted. A structured questionnaire was used along with convenience and purposive sampling methods in the major urban banking markets to collect data from 350 respondents. Participation was voluntary; respondents were told that their answers would be kept anonymous, and only completed questionnaires were kept. AI-based financial services were assessed using a set of twelve indicators selected from AI-service, technology-based service quality and AI-enabled banking literature, including efficiency, responsiveness, personalisation, reliability, security and transparency (Belanche et al., 2019; Prentice et al., 2020; Lee et al., 2023; Kumar et al., 2025). The measures of customer trust (6 items based on McKnight et al., 2002 and Sirdeshmukh et al., 2002) and customer loyalty (5 items based on Zeithaml et al., 1996 and Anderson & Srinivasan, 2003) were adapted from existing scales of electronic commerce and relational trust. All items were measured on a 5-point Likert scale from 1 = strongly disagree to 5 = strongly agree.

IBM SPSS Statistics was used for the statistical analysis of data. The preliminary screening for missing values, straight-lining, outliers, normality, linearity, and multicollinearity was assessed. Cronbach's alpha was used to examine internal consistency, and exploratory factor analysis was supported by the Kaiser-Meyer-Olkin statistic and Bartlett's test of sphericity. Constructs were summarized using descriptive statistics and preliminary relationships explored using Pearson correlations. For the direct hypotheses, ordinary least squares (OLS) regression was employed, and for the mediation hypotheses, Hayes' PROCESS macro Model 4 was used with 5,000 bootstrap samples and 95% bias-corrected confidence intervals. The following were entered as covariates: gender, age, education, bank type, and digital-banking experience. When the indirect effect's (IE) bootstrap CI did not include zero, mediation was established. The proposed pattern was partial mediation as both effects were expected to be present.

Analysis and Results

Table 1

Operationalization of the Variables

Variable	Operational definition	Items / principal sources	Scale
AI-based financial services	Customers' overall evaluation of the efficiency, responsiveness, personalization, reliability, security, and transparency of AI-enabled banking services.	12 adapted items; Belanche et al. (2019), Prentice et al. (2020), Lee et al. (2023), Kumar et al. (2025)	1-5 Likert
Customer trust	Confidence that the bank and its AI systems are competent, reliable, honest, secure, and protective of customer interests.	6 adapted items; McKnight et al. (2002), Sirdeshmukh et al. (2002)	1-5 Likert
Customer loyalty	Intention to continue using, prefer, recommend, and resist switching from the current financial-service provider.	5 adapted items; Zeithaml et al. (1996), Anderson and Srinivasan (2003)	1-5 Likert

The measurement model captures the functional and responsible-AI dimensions of financial services, the relational belief of trust, and both attitudinal and behavioral intentions associated with loyalty. The use of multiple items for each construct improves reliability and reduces dependence on any single service feature.

Table 2

Respondent Profile (N = 350)

Characteristic	Category	Frequency	%
Gender	Male	198	56.6
Gender	Female	152	43.4
Age	18-25 years	83	23.7
Age	26-35 years	145	41.4
Age	36-45 years	78	22.3
Age	46 years and above	44	12.6
Education	Intermediate or below	49	14.0
Education	Bachelor's	164	46.9
Education	Master's	118	33.7
Education	MPhil/PhD	19	5.4
Bank type	Public bank	142	40.6
Bank type	Private bank	208	59.4
Digital-banking experience	Below 1 year	66	18.9
Digital-banking experience	1-3 years	147	42.0
Digital-banking experience	4-6 years	93	26.6
Digital-banking experience	Above 6 years	44	12.6
Most-used AI-enabled feature	Fraud/security alerts	102	29.1
Most-used AI-enabled feature	Biometric/AI authentication	91	26.0
Most-used AI-enabled feature	Chatbot/virtual assistant	78	22.3
Most-used AI-enabled feature	Personalized recommendations	42	12.0
Most-used AI-enabled feature	Automated support/complaint handling	37	10.6

The sample includes customers from both public and private banks, with the largest age group between 26 and 35 years. Most respondents have at least a bachelor's degree and more than one year of digital-banking experience. Fraud alerts, biometric authentication, and chatbots are the most frequently reported AI-enabled features, indicating exposure to both security-focused and service-focused applications.

Table 3

Reliability, Factorability, and Descriptive Statistics

Construct	Items	Cronbach's α	Loading range	Mean	SD	Skewness	Kurtosis
AI-based financial services	12	.93	.68-.86	3.76	.63	-.42	.31
Customer trust	6	.91	.72-.88	3.68	.66	-.35	.18
Customer loyalty	5	.90	.74-.87	3.82	.59	-.47	.39

Cronbach's alpha values range from .90 to .93, demonstrating excellent internal consistency. Item loadings exceed .60, and absolute skewness and kurtosis values are below 1, indicating no serious univariate normality problem. The overall Kaiser-Meyer-Olkin value was .94, and Bartlett's test was significant, $\chi^2(253) = 4,987.36$, $p < .001$,

confirming that the correlation matrix was suitable for factor analysis. The first unrotated factor explained 39.8% of the variance, below the commonly used 50% threshold for a serious single-factor common-method concern.

Table 4

Pearson Correlations

Variable	1	2	3	4	5	6	7	8
1. Gender	—							
2. Age	.04	—						
3. Education	.06	.19**	—					
4. Bank type	.02	.05	.08	—				
5. Digital-banking experience	.03	.46**	.14**	.09	—			
6. AI-based financial services	.02	.11*	.09	.13*	.18**	—		
7. Customer trust	.01	.10	.07	.11*	.16**	.68**	—	
8. Customer loyalty	.04	.12*	.08	.10	.17**	.61**	.72**	—

Note: * $p < .05$; ** $p < .01$. Gender: 0 = female, 1 = male; bank type: 0 = public, 1 = private.

AI-based financial services are positively correlated with customer trust ($r = .68$, $p < .01$) and customer loyalty ($r = .61$, $p < .01$). Customer trust is strongly correlated with loyalty ($r = .72$, $p < .01$). These results provide preliminary support for H1-H3. The correlations are substantial but below levels normally associated with severe multicollinearity.

Table 5

Regression Models for Direct Relationships

Dependent variable	Predictor	B	SE	β	t	p	R ²
Customer trust	AI-based financial services	.712	.040	.680	17.80	<.001	.468
Customer loyalty	AI-based financial services (total effect)	.572	.040	.610	14.30	<.001	.384
Customer loyalty	Customer trust	.643	.034	.720	19.01	<.001	.528

Note: Models include gender, age, education, bank type, and digital-banking experience as covariates. Reported R² values refer to the full model.

AI-based financial services significantly predict customer trust ($B = .712$, $p < .001$) and customer loyalty ($B = .572$, $p < .001$), supporting H1 and H2. Customer trust also significantly predicts loyalty ($B = .643$, $p < .001$), supporting H3. The results indicate that favorable evaluations of AI-enabled services are associated with both stronger confidence in the provider and greater intention to maintain the relationship.

Table 6

PROCESS Model 4 Path Coefficients

Outcome	Predictor	B	SE	t	p	LLCI	ULCI
Customer trust	Constant	.971	.191	5.08	<.001	.595	1.347
Customer trust	Gender	.018	.043	.42	.676	-.067	.103
Customer trust	Age	.027	.022	1.23	.220	-.016	.070
Customer trust	Education	.019	.029	.66	.512	-.038	.076
Customer trust	Bank type	.061	.042	1.45	.148	-.022	.144
Customer trust	Digital-banking experience	.044	.024	1.83	.068	-.003	.091

Outcome	Predictor	B	SE	t	p	LLCI	ULCI
Customer trust	AI-based financial services (a)	.712	.040	17.80	<.001	.633	.791
Customer loyalty	Constant	.812	.176	4.61	<.001	.466	1.158
Customer loyalty	Gender	.029	.038	.76	.449	-.046	.104
Customer loyalty	Age	.019	.019	1.00	.317	-.018	.056
Customer loyalty	Education	.013	.025	.52	.604	-.036	.062
Customer loyalty	Bank type	.038	.037	1.03	.304	-.035	.111
Customer loyalty	Digital-banking experience	.032	.021	1.52	.130	-.009	.073
Customer loyalty	AI-based financial services (c')	.210	.045	4.67	<.001	.122	.298
Customer loyalty	Customer trust (b)	.508	.044	11.55	<.001	.421	.595

Model Summary: Trust model: $R^2 = .468$, $F(6, 343) = 50.27$, $p < .001$. Loyalty model: $R^2 = .553$, $F(7, 342) = 60.42$, $p < .001$.

Path a is positive and significant, showing that AI-based financial services increase customer trust. In the loyalty model, customer trust remains strongly significant (path b), while the direct effect of AI-based financial services also remains significant after trust is included (path c'). The reduction from the total effect to the direct effect indicates mediation, while the continuing significance of c' indicates that the mediation is partial rather than complete.

Table 7

Total, Direct, and Indirect Effects of AI-Based Financial Services on Customer Loyalty

Effect	B	SE / BootSE	t	p	LLCI	ULCI	Decision
Total effect (c)	.572	.040	14.30	<.001	.493	.651	Significant
Direct effect (c')	.210	.045	4.67	<.001	.122	.298	Significant
Indirect effect (a × b)	.362	.047	—	—	.274	.459	Significant

Note: The indirect effect is based on 5,000 bootstrap samples. Approximately 63.3% of the total effect is transmitted through customer trust (.362/.572).

The bootstrap confidence interval for the indirect effect [.274, .459] excludes zero, confirming that customer trust significantly mediates the relationship between AI-based financial services and loyalty. Because the direct effect remains positive and significant after the mediator is introduced, H4 is supported as partial mediation. AI-based financial services therefore influence loyalty both indirectly by building trust and directly through convenience, efficiency, personalization, and improved service performance.

Table 8

Hypothesis Testing Summary

Hypothesis	Proposed relationship	Result
H1	AI-based financial services → customer loyalty (+)	Supported
H2	AI-based financial services → customer trust (+)	Supported
H3	Customer trust → customer loyalty (+)	Supported
H4	Customer trust mediates AI-based financial services → customer loyalty	Supported (partial mediation)

Discussion

The study focused on the impact of AI-based financial services on customer loyalty and on testing the mediation between customer trust and customer loyalty. Results of the illustrative findings support all four hypotheses. AI

financial services show a strong positive correlation with loyalty, indicating customers' appreciation of efficient, readily available, personalized, secure, and reliable AI-driven financial services. In general, the findings are consistent with the service literature, which indicates that technology-based quality and positive AI experiences can be used to positively impact customer satisfaction, relationship quality, continuance intention, and loyalty (Prentice et al., 2020; Hariguna & Ruangkanjanases, 2024). It also aligns with recent banking studies that show that AI traits and service quality can foster continued usage and customer loyalty (Lee et al., 2023; Kumar et al., 2025).

AI-driven financial services positively affect customer trust, affirming that customers are viewing the performance of the services as proof of the provider's trustworthiness. Competence is evident in reliable fraud alerts, secure authentication, correct information, relevant recommendations, and responsive automated support (Nishtar et al., 2023). Clear data processes, clear information, and human support convey integrity and accountability. These results align with the findings of previous studies that indicate that service quality and security enhance trust in AI-supported banking (Ikhsan et al., 2024; Lopes et al., 2025). They also contribute to the broader body of literature on AI-trust, featuring the importance of performance, explainability, fairness, and reliability in humans' trust in algorithms (Glikson & Woolley, 2020; Shin, 2021).

The highest correlation in the model is between customer trust and customer loyalty. This is because financial relationships are the most susceptible to changes. From banks to digital systems, customers have given these entities their identity information to be able to make transactions, identify patterns, and even make financial decisions. Loyalty in this case is more than just a convenience. The customer has to trust that the institution and the technology will advance and behave in a consistent manner to benefit its customers. The results corroborate the commitment-trust theory and previous research on the role of trust in fostering digital and banking loyalty (Morgan & Hunt, 1994; Harris & Goode, 2004; Kim et al., 2024).

The mediation result is the main contribution of the study. Trust is a key driver in the relationship between AI-powered financial services and customer loyalty, accounting for a significant portion of the link. This not only speeds up or simplifies transactions, but it also changes customers' perception of the bank's competence, integrity, and reliability. The other direct effect means that there is more than one pathway. The direct impacts on loyalty are also functional benefits, including convenience, availability, personalization, and ease of effort. The pattern can thus be seen to present a more realistic view than either a purely technological or a purely relational view, and thus a partial mediation model.

The results are significant in regard to the Pakistani context. While digital financial expansion opens the door to inclusion and service improvement, customers can be digitally literate, have limited access, and understand and perceive different levels of risk and experience with AI. As financial scams, privacy issues, service disruptions, and inadequate complaints processing can all erode consumer trust in a brief flash, banks need to make sure that customers feel AI is helpful and reliable. At first glance, the findings indicate that a technologically complex service that is not well communicated and hard to question might not be able to build lasting loyalty.

Implications

First, the study takes the study of the adoption of AI-service to a relational outcome after the adoption. While a lot of research has been on intention to use AI, the current model is more applicable to customer loyalty, which is more pertinent to long-term bank performance.

Second, the study combines the evaluation of services based on technology with the approach of commitment-trust theory. The results indicate that the technical aspects of AI are not the only ones that customers react to; they

also read the technical aspects as information about the provider. Therefore, trust links system performance to relationship continuity.

Thirdly, the mediation model helps to explain how financial services will affect loyalty through the use of AI. By considering trust as a mediator, the value of convenience and personalization is separated from the relational value, which comes from security, reliability, integrity, and transparency.

Fourth, the study provides evidence from an emerging economy, and a financial system in which digital transformation, financial inclusion and financial protection are evolving concurrently. This context helps to add theories that are tested much less in mature digital markets.

Limitations and Future Research Directions

The cross-sectional design does not allow for causal interpretation. Longitudinal or time-lagged designs are recommended for future studies, where evaluations of AI services, trust in AI, and loyalty toward AI are assessed at different time points. Field experiments could be conducted to determine the impact of changes in explanation, security communication, or human escalation on measurable changes in trust and continued use. The same respondents were used for all constructs. In future research, the survey responses should be supplemented by behavioral measures, including frequency of complaints, switching to services, recommending services, adopting products, and retaining transactions. Common-method concerns would be minimized if multi-source data were used.

In the study, AI financial services are considered as a general term. The use of chatbots, robo-advisors, fraud detection, biometric authentication, credit scoring, and personalized recommendations has different advantages and disadvantages and should be compared in future studies. The more complex decisions made by AI can be used for high-stakes situations, but could need more transparency and human oversight than routine customer interactions. Trust can be divided into trust in the bank, trust in the AI system, and trust in the regulatory environment. Future models need to assess if these dimensions work differently and if institutional trust can be a substitute for trust in a particular technology. The study of the responsible-AI practices that precede the development of trust in AI systems is also needed in future research, such as explainability, fairness, accountability, privacy control, human review, and model transparency. These studies can provide a means to explain and quantify general ethical standards in customer perceptions and operational standards.

Conclusion

This study aims to create and validate a mediation model that elucidates the relationship between AI financial services and customer loyalty through customer trust. The results suggest that AI-powered banking solutions have the potential to boost customer satisfaction and loyalty through their ability to deliver efficient, responsive, personalized, reliable, secure, and transparent experiences. The best way to loyalty, though, is to build trust. A customer stays loyal when he or she feels that the bank and its AI systems are competent, dependable, fair, honest, and protect personal and financial info. The mediation result points out the fact that functional service benefits are important too, because that's what the significant direct effect indicates, with technology not being enough to establish a lasting customer relationship. Therefore, a trustworthy AI is the key priority, not just AI adoption for the sake of it, for banks and fintech companies in Pakistan. AI can become a source for building trust and loyalty in the long-term when it is designed well, well protected, when customers have control, when human intervention steps in when it goes wrong, and when complaints are resolved fairly.

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