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Rate Indicators and Customer Responses: A Conceptual Study of Interest Rate Perception in Commercial Banking

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ABSTRACT

Interest rate movements remain central to customer financial behaviour and bank competitiveness, yet limited attention has been given to how customers psychologically interpret rate-related decisions. This conceptual paper addresses this gap by examining how customer perception, bank performance, and perceived attractiveness of rate offerings shape interest rate perception within the Malaysian commercial banking context. The problem arises because traditional explanations of interest rate evaluation rely heavily on financial and macroeconomic indicators, overlooking the behavioural mechanisms through which customers judge fairness, clarity, and competitiveness. To address this issue, the study proposes a theoretical model grounded in Expectancy Disconfirmation Theory, Perceived Value Theory, and Behavioral Finance Theory. Using a conceptual synthesis approach, the paper integrates insights from consumer behaviour and behavioural finance literature to explain how expectation fulfilment, value assessments, and behavioural biases influence interest rate perception. The model suggests that interest rate perception is shaped not only by numerical rate levels, but also by trust, perceived value, and emotional reactions to perceived financial gains or losses. The principal outcome of this conceptual analysis is an expanded understanding of interest rate perception as a multidimensional psychological construct. The study concludes that banks must strengthen transparency, enhance communication on rate adjustments, and design rate offerings that maximise perceived value in order to improve customer acceptance of rate decisions. This conceptual contribution establishes a foundation for future empirical research and provides guidance for banks and policymakers

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seeking to better understand customer-driven responses to interest rate strategies in an increasingly competitive financial environment.

1. Introduction

Bank performance remains a fundamental indicator of a financial institution's stability, profitability, and long-term sustainability. Among the variables influencing bank performance, rate indicators—such as loan rates, deposit rates, interest rates, and non-performing loan (NPL) ratios—play central roles in shaping profitability, liquidity, and risk exposure [22]. Interest rates directly affect the net interest margin (NIM), which represents the differential between interest earned on loans and interest paid on deposits. A higher NIM generally reflects stronger financial performance and more effective management of interest spreads [22].

Loan and deposit rates strongly shape customer financial behaviour. High loan rates may increase interest income but reduce borrowing due to greater financing costs, while attractive deposit rates can draw more savings yet raise a bank's cost of funds [10]. NPL ratios signal the quality of a bank's loan portfolio; high NPL levels increase credit risk and strain capital reserves [22]. Because these rate variables influence customer decisions related to borrowing, saving, and switching behaviour, understanding customer responses to rate decisions is increasingly crucial in competitive banking markets.

Modern banking increasingly emphasises customer-centric strategic approaches. Customers no longer evaluate banks solely based on service quality; they also assess their perception of fairness, transparency, and competitiveness in rate offerings. These perceptions influence satisfaction, loyalty, trust, and long-term engagement. However, despite the importance of customer perception, comparatively fewer studies have explored interest rate perception—how customers interpret, evaluate, and judge interest rate decisions.

This study therefore examines how customer perception, perceived bank performance, and perceived attractiveness influence interest rate perception. Understanding these determinants provides valuable insights into the behavioural and psychological aspects of customer reactions to rate policies, offering practical implications for banks seeking to improve competitiveness and customer satisfaction.

1.1 Problem Statement

Bank performance is strongly influenced by several key rate indicators, including interest rates, loan rates, deposit rates, and non-performing loan (NPL) ratios. These indicators determine a bank's profitability, financial stability, and risk exposure. However, managing these indicators effectively has become increasingly challenging in today's volatile financial environment. Banks must find the right balance between offering competitive rates to attract customers and maintaining sustainable profitability and asset quality.

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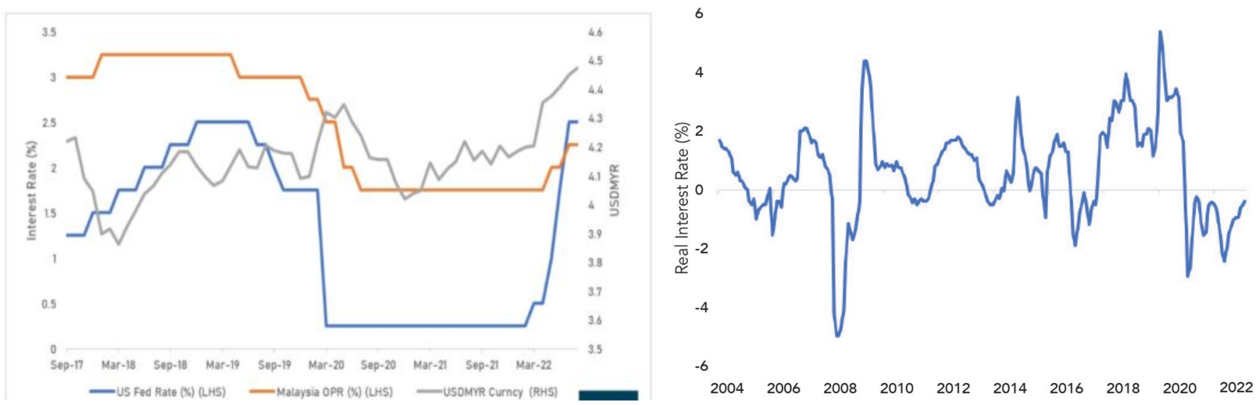

Fig. 1. Malaysia OPR interest rate

Improper management of these indicators can lead to declining profits, increased credit risk, and long-term financial instability. For example, high loan rates may discourage borrowing, unattractive deposit rates may reduce customer retention, and elevated NPL ratios can weaken asset quality and strain capital requirements [22]. This creates pressure for banks to continuously adjust their pricing strategies while controlling risk exposures.

The complexity of rate management has intensified further due to external monetary developments, particularly the widening divergence between the US Federal Reserve (Fed) rate and Malaysia’s Overnight Policy Rate (OPR). As shown in Figure 3, the US Fed rate rose sharply from 2021 to 2022, whereas Malaysia’s OPR increased at a slower and more gradual pace. This divergence contributed to substantial fluctuations in the USD/MYR exchange rate, reflecting capital flow pressures and exchange rate volatility. Such conditions pose additional challenges for Malaysian banks, as a stronger USD increases imported inflation, raises funding costs for firms with USD-denominated liabilities, and indirectly affects banks’ decisions regarding lending and deposit pricing.

Global monetary divergence also influences liquidity conditions in emerging markets. Higher US interest rates generally attract global capital toward the United States, potentially reducing liquidity in Malaysia’s financial system. This can tighten domestic credit conditions and compel banks to adjust pricing strategies more frequently to preserve profitability and maintain adequate liquidity buffers. As domestic customers become more sensitive to interest rate movements, banks must balance these global pressures with local expectations of fairness, value, and competitiveness in loan and deposit pricing. This environment increases the difficulty of sustaining a stable net interest margin while responding to rapidly changing external financial conditions.

The core problem, therefore, centers on how banks can optimize performance through efficient management of rate indicators. Achieving the optimal equilibrium between loan rates, deposit rates, interest margins, and credit risk is complex, especially in the context of changing customer expectations, economic fluctuations, and regulatory adjustments. As financial markets evolve, banks must adopt more dynamic and data-driven approaches to manage rate indicators effectively and remain competitive [11,13].

Given these challenges, there is a critical need to investigate how rate indicators influence bank performance and to identify strategies that banks can use to strengthen their financial position while meeting customer expectations. This study addresses this gap by analyzing how interest rates, loan rates, deposit rates, and NPL ratios impact overall bank performance from a customer perspective.

1.2 Research Objective

i. To examine the relationship between customer perception and interest rate perception.
ii. To analyse the influence of perceived bank performance on interest rate perception.
iii. To determine the effect of perceived attractiveness of rate offerings on interest rate perception.
iv. To contribute behavioural and theoretical insights into customer evaluation of interest rate policies.

1.3 Significant of Study

This study offers significant contributions to both academic research and banking practice by examining how customer perception, perceived bank performance, and perceived attractiveness influence interest rate perception. As interest rate decisions increasingly shape customer behaviour and financial engagement, understanding the determinants of interest rate perception is critical for banks operating in a competitive and rapidly changing financial environment.

First, the study provides practical insights for banking institutions by identifying which perceptual factors most strongly shape interest rate perception. By understanding how customers evaluate interest rate fairness, clarity, and competitiveness, banks can refine their pricing strategies, communication practices, and customer engagement efforts. This is particularly important as customers today place greater emphasis on transparency, trust, and perceived value when assessing financial products.

Second, the findings contribute to strengthening banks' strategic and operational decision-making. By analysing the influence of customer perception and perceived bank performance, the study highlights the importance of institutional trust, stability, and reputation in shaping how customers interpret rate-related decisions. Positive assessments of a bank's performance enhance credibility and increase customer acceptance of interest rate policies, supporting more effective rate management and customer retention.

Third, the study extends existing literature by emphasising the role of perceived attractiveness as a key determinant of interest rate perception. While many previous studies focus on numerical rate levels or macroeconomic factors, this research highlights the behavioural dimension—demonstrating that customers judge interest rate fairness not only by the rate itself but by how attractive and beneficial it appears relative to alternatives. This perspective enhances theoretical understanding by linking financial decision-making with value perceptions and behavioural responses.

Fourth, the study provides relevant insights for policymakers and regulators. Understanding how customers react to rate changes—particularly in terms of perceived fairness and trust—can inform regulatory efforts aimed at improving rate transparency, strengthening consumer protection, and promoting financial inclusion. Such insights support the development of policies that enhance confidence in the banking system and ensure that rate-setting practices remain equitable and customer-oriented. Overall, this study contributes to a deeper understanding of how perceptual factors shape interest rate perception, supporting banks in adopting more customer-centric strategies that enhance competitiveness, trust, and long-term sustainability.

2. Literature Review

Bank performance is a multidimensional concept influenced by financial, operational, and customer-related factors. While traditional evaluations of bank performance rely heavily on financial indicators such as profitability ratios, liquidity levels, and asset quality, recent studies highlight the growing importance of customer perceptions in shaping financial outcomes. As the banking industry becomes increasingly competitive and customer-driven, the way customers perceive bank pricing—particularly rate indicators such as loan rates, deposit rates, interest rates, and non-performing loan (NPL) ratios plays a critical role in influencing their financial behaviours. These behaviours, in turn, shape bank profitability, stability, risk exposure, and long-term performance. This literature review synthesises prior studies on customer perceptions of rate indicators and their implications for bank performance while supporting the discussion with relevant theoretical foundations.

2.1 Bank Performance Based on Rate Indicators from a Customer Perspective

Modern banking emphasizes customer-centricity as customers increasingly compare financial products, switching banks when rates are unfavourable or perceived as unfair. Rate indicators have thus become major determinants of customer satisfaction, trust, retention, and demand for banking products. Customers evaluate banks not only based on service quality but also through how competitive and fair their rate offerings are. Therefore, rate indicators significantly shape customer decisions related to borrowing, saving, investing, and long-term relationship-building with financial institutions. Understanding the interactions between rate indicators and customer responses offers banks valuable insights into improving profitability, maintaining liquidity, and sustaining competitive advantage.

2.1.1 Customer perception of loan rates and bank performance

Loan rates are among the most influential pricing tools affecting customer borrowing decisions. Customers evaluate loan affordability based on the interest rate offered, as higher loan rates increase borrowing costs and reduce loan demand. Studies show that competitive loan pricing significantly enhances customer acquisition and strengthens loyalty, leading to larger loan portfolios and increased profitability [1]. Moreover, when customers perceive loan rates as fair and transparent, they are more likely to trust the bank, commit to long-term borrowing, and repay loans consistently, which contributes to better asset quality and reduced credit risk [24].

In contrast, excessively high loan rates discourage borrowing, push customers toward alternative institutions such as Islamic banks, microfinance lenders, or fintech providers, and ultimately reduce a bank's market share [10]. Furthermore, high loan rates may increase the probability of default among existing borrowers, negatively affecting the bank's NPL ratios. Research indicates that balancing loan competitiveness with risk considerations is essential for maintaining financial stability and healthy loan growth. Overall, customer perception of loan rates strongly influences bank profitability, credit performance, and competitive positioning.

2.1.2 Perceived attractiveness of deposit rates and customer satisfaction

Deposit rates play a vital role in customer saving behaviours. Customers are increasingly sensitive to the interest income generated from savings, leading them to compare deposit rates across banks before deciding where to store their funds. Attractive deposit rates draw more deposits, which improves bank liquidity and enhances lending capacity. Research shows that deposit rate attractiveness is directly linked to customer satisfaction and loyalty, as customers associate competitive rates with fair value and respect for their financial interests [13].

From a bank's perspective, higher deposit inflows lower the bank's reliance on external borrowing and reduce the overall cost of funds, ultimately improving profitability. However, banks must balance deposit rate attractiveness with financial sustainability, as excessively high rates may compress interest margins. Studies confirm that banks maintaining optimal deposit pricing strategies achieve stronger liquidity positions, better customer retention, and improved financial performance [9]. Thus, deposit rate competitiveness is both a customer satisfaction driver and a strategic determinant of bank stability and profitability.

2.1.3 Interest rate perception and financial decision making

Interest rates govern consumer decisions related to borrowing and saving, with customers highly responsive to changes in interest rates. Even small adjustments can significantly influence customers' financial actions. Higher interest rates on loans reduce borrowing demand, while lower interest rates on deposits discourage savings. Research shows that customers closely monitor interest rate movements and often adjust their financial strategies accordingly, particularly in uncertain economic environments [16].

Additionally, customer trust in how banks manage interest rate changes is central to maintaining long-term relationships. When customers perceive interest rate adjustments as fair, transparent, and market-aligned, their confidence in the bank strengthens, increasing loyalty and reducing turnover [23]. Conversely, sudden or poorly communicated interest rate changes erode trust and may trigger customer migration. Therefore, interest rate perception affects customer satisfaction, product demand, and overall bank performance by shaping financial decision-making behaviours.

2.1.4 Customer trust and perceived management of rate indicators

Trust plays a critical role in determining customer loyalty in the banking industry. Customers tend to stay with banks they perceive as fair, transparent, and consistent in managing rate indicators. Transparent communication about loan rates, deposit rates, and interest adjustments reassures customers that the bank operates with integrity and fairness. Research shows that trust in rate management significantly enhances customer retention, increases willingness to purchase multiple banking products, and strengthens long-term financial relationships [14].

Trust functions as both a behavioural and economic asset. Customers who trust their bank are less likely to switch even when competitor banks offer slightly better rates. This reduces customer attrition and stabilizes bank profitability. Trust also supports the bank's reputation, reduces marketing costs, and encourages positive word-of-mouth. Effective rate management therefore contributes not only to customer satisfaction but also to financial sustainability and competitive advantage [10].

2.3 Theoretical Discussion: Bank Performance Based on Rate Indicators from a Customer Perspective

Understanding how customers respond to rate indicators requires grounding in established consumer behaviour and financial decision-making theories. These theories help explain why rate perceptions influence satisfaction, loyalty, and subsequent bank performance.

2.3.1 Expectancy disconfirmation theory

Expectancy–Disconfirmation Theory (EDT) suggests that customer satisfaction results from comparing expectations with perceived performance. When actual banking rates—loan rates, deposit rates, and interest rates—meet or exceed customer expectations, satisfaction increases. Research demonstrates that positive disconfirmation leads to higher loyalty, favourable attitudes toward the bank, and stronger financial commitment [18]. Conversely, when rate expectations are unmet, dissatisfaction sets in, prompting customers to reduce their engagement or switch banks [24]. This theory explains why competitive rate offerings significantly impact customer satisfaction and why banks that maintain favourable rate structures experience better customer retention and performance.

2.3.2 Perceived value theory

Perceived Value Theory (PVT) emphasizes that customers evaluate the benefits of a product or service relative to its cost. In banking, perceived value is shaped by how customers assess loan affordability, deposit returns, and fairness of interest rates. Higher perceived value leads to stronger loyalty, greater customer lifetime value, and positive word-of-mouth, all of which contribute to improved bank performance [25]. This theory also highlights the importance of balancing rate competitiveness with customer expectations to maximize value perception.

2.3.3 Behavioral finance theory

Behavioral Finance Theory, particularly Prospect Theory, explains how psychological biases affect financial decision-making. Customers exhibit loss aversion, meaning they react more strongly to negative rate changes—such as increasing loan rates or decreasing deposit rates—than to positive ones. This behaviour affects product demand and customer satisfaction. Understanding these behavioural patterns enables banks to design pricing strategies that minimize negative reactions and support stable customer engagement [12,16]. Prospect Theory also explains why sudden interest rate adjustments can trigger customer dissatisfaction even when financially justified, highlighting the need for transparent communication and predictable rate policies.

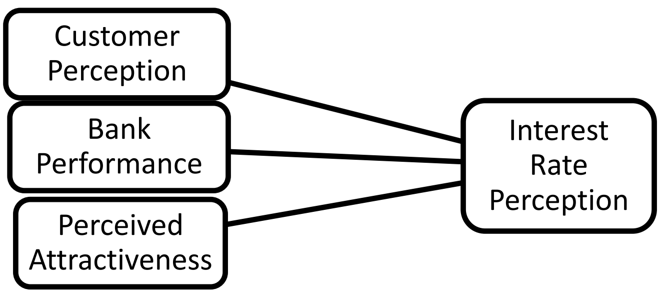

Fig 2. Research framework

2.4 Hypotheses Development

The current conceptual framework proposes that customers' interest rate perception—that is, how fair, reasonable, competitive, and acceptable they perceive a bank's interest rate policies—does not develop in isolation, but is shaped by broader customer experiences and evaluations of the bank. These evaluations include customer perception, bank performance, and perceived attractiveness of rate-related offerings. The following sections provide an extended theoretical discussion for each hypothesized relationship, supported by consumer behaviour theory, banking literature, and financial decision-making principles.

2.4.1 Customer perception → interest rate perception

Customer perception encompasses customers' overall evaluation of a bank's credibility, trustworthiness, service quality, transparency, and fairness. These global perceptions act as a cognitive lens through which customers evaluate all aspects of the bank—including its interest rate decisions. When customers hold strong positive perceptions of a bank, they are more inclined to interpret interest rate policies favourably, even if the rates are not the lowest in the market.

Positive customer perception reduces perceived risk and enhances confidence in the bank's pricing decisions. Customers who trust the bank are also more likely to believe that interest rate changes are market-driven, justified, and aligned with customer interests. They may view interest rate adjustments as part of responsible financial management rather than opportunistic pricing.

Furthermore, the literature suggests that customer perception strongly influences expectations regarding fairness and transparency. Banks that consistently demonstrate ethical practices and clear communication increase customers' willingness to accept interest rate structures. This acceptance leads to more favourable interest rate perceptions, reduced resistance to rate changes, and greater long-term loyalty. Given these theoretical and empirical insights, strong customer perception is expected to significantly enhance customers' evaluation of interest rate fairness and competitiveness.

H1: Customer perception has a positive and significant relationship with interest rate perception.

2.4.2 Bank performance → interest rate perception

Bank performance signals stability, efficiency, profitability, and operational strength. Customers typically evaluate a bank's interest rate decisions through the lens of how well the bank is performing. When customers perceive that a bank is financially strong—demonstrated by profitability, stability, low risk, and efficient operations—they develop more confidence in its strategic decisions, including rate-setting policies.

A well-performing bank is presumed to have optimal financial systems and strong governance structures, enabling it to offer competitive rates that are aligned with market conditions. Thus, customers may interpret interest rate adjustments from high-performing banks as economically justified rather than opportunistic. This perception enhances the credibility and acceptability of the bank's rate decisions.

Conversely, if customers view a bank as financially weak or unstable, they may perceive its interest rate strategies negatively, believing the rates are a means to compensate for poor performance rather than market realities. Poor performance reduces trust, increases scepticism, and weakens interest rate perception. Based on these arguments, perceived bank performance plays a crucial role in strengthening or weakening the way customers interpret interest rate fairness and competitiveness.

H2: Bank performance has a positive and significant relationship with interest rate perception.

2.4.3 Perceived attractiveness → interest rate perception

Perceived attractiveness refers to how appealing customers find a bank's pricing structures, including loan rates, deposit rates, savings returns, and overall financial value. Customers who perceive the bank's financial offerings as attractive tend to develop more favourable evaluations of interest rates because attractiveness enhances perceived fairness, value, and suitability.

When customers believe they are receiving competitive or advantageous rates, they are more inclined to view the bank's interest rate policies positively. Perceived attractiveness enhances satisfaction with rate-related products, increases trust in pricing decisions, and strengthens the belief that the bank cares about providing value to customers.

Moreover, perceived attractiveness directly influences customers' cognitive and emotional responses to interest rate levels. Competitive or favourable pricing enhances perceived fairness, reduces perceived loss or burden, and increases acceptance of the bank's rates. This dynamic is supported by consumer value theories, which suggest that customers judge financial decisions based on perceived benefits relative to costs. Therefore, perceived attractiveness is expected to be a strong determinant of interest rate perception, shaping how customers interpret and respond to rate structures.

H3: Perceived attractiveness has a positive and significant relationship with interest rate perception.

3. Methodology

This study employs a quantitative, cross-sectional research design to examine the influence of customer perception, bank performance, and perceived attractiveness on interest rate perception among bank customers in Malaysia. The quantitative approach is suitable for studies that aim to test theoretical relationships using numerical data and statistical techniques. Quantitative research enables structured measurement of the variables and allows objective comparison between the independent variables (IVs) and the dependent variable (DV). According to Creswell and Creswell [4], this approach is appropriate when researchers intend to establish relationships between variables and make generalisations based on empirical data.

A cross-sectional design is used because data are collected at a single point in time, providing a snapshot of respondents' current perceptions regarding interest rates. This design is widely applied in behavioural and financial studies as it is efficient, cost-effective, and suitable for analysing perceptual constructs across large populations [21].

3.2 Population and Sampling

The population of this study will comprise customers of commercial banks in Malaysia, including individuals who maintain savings accounts, fixed deposits, loan facilities, or other financial products affected by interest rate movements. These customers are appropriate for the study because they interact directly with rate-related banking policies and are therefore well-positioned to evaluate interest rate perception.

A total of 386 respondents will be targeted for data collection. This sample size exceeds the minimum threshold recommended by Hair et al. [8], who propose at least 200 cases for multivariate analysis and a ratio of 5–10 respondents per measurement item. In addition, a G*Power analysis will be conducted to determine the minimum required sample size for a regression model with three predictors. Using a medium effect size ($f^2 = 0.15$), a desired statistical power of 0.80, and an alpha value of 0.05, the minimum required sample is 77 respondents. Therefore, the proposed sample of 386 respondents will provide substantially greater statistical power, enhance the precision of parameter estimates, and improve the generalisability of the findings.

A simple random sampling technique will be employed to ensure that all eligible bank customers have an equal probability of being selected. This approach will minimise sampling bias and increase sample representativeness, consistent with recommendations by Etikan and Bala [6].

3.3 Data Collection Method

Data will be collected using a structured self-administered questionnaire, distributed electronically through Google Forms and other digital platforms. Online distribution offers several advantages, including wider coverage, convenience for respondents, and reduced administrative costs. Structured questionnaires are effective for quantitative studies because they standardise responses, facilitate analysis, and support the use of statistical tests [15].

Before full deployment, a pilot test involving 30 respondents will be conducted to evaluate the clarity and reliability of the items. Feedback from the pilot will be used to refine and improve the questionnaire. The main survey will be administered after validation, and responses will be recorded anonymously.

3.4 Research Instrument

The research instrument used in this study is a structured self-administered questionnaire, designed to measure the four main constructs under investigation: customer perception (IV1), bank performance (IV2), perceived attractiveness (IV3), and interest rate perception (DV). The questionnaire is organised into five distinct sections to ensure clarity, logical flow, and ease of response for participants.

Section A: Demographic Information
This section collects respondents' background information, including age, gender, monthly income, education level, type of bank used, and duration of their banking relationship. These variables assist in profiling respondents and understanding potential demographic influences on perceptions.

Section B: Customer Perception (IV1)
This section comprises items that assess how respondents evaluate the bank's fairness, transparency, trustworthiness, and clarity of communication. Customer perception has been widely recognised as a critical factor influencing customer satisfaction and behavioural responses to financial institutions [24].

Section C: Bank Performance (IV2)
Items in this section measure respondents' perceived assessment of the bank's overall performance, including financial stability, service reliability, operational efficiency, and reputation. Perceived bank performance contributes significantly to customer confidence and trust in financial institutions [22].

Section D: Perceived Attractiveness (IV3)
This section evaluates the extent to which respondents perceive the bank's rate-related offerings—such as loan rates, deposit returns, and interest-based benefits—as appealing and competitive. Perceived attractiveness has been shown to influence customer selection and engagement with banking services [13].

Section E: Interest Rate Perception (DV)
This section captures respondents' perceptions regarding the fairness, competitiveness, clarity, and acceptability of the bank's interest rate policies. Interest rate perception influences customer trust, financial decision-making, and willingness to engage with banking products [16], [23].

All items across Sections B to E are measured using a five-point Likert scale, ranging from 1 = Strongly Disagree to 5 = Strongly Agree, consistent with methodological recommendations for measuring attitudes and perceptions [15].

Table 1
Constructs, measurement focus, and scale types used in the questionnaire

Section	Construct	Description / Measurement Focus	Scale Used
Section A	Demographics	Age, gender, education, income, bank type, relationship duration	Nominal/Ordinal
Section B	Customer Perception (IV1)	Fairness, transparency, trust, communication quality	5-point Likert [15], [24]
Section C	Bank Performance (IV2)	Stability, financial strength, service reliability	5-point Likert [22]
Section D	Perceived Attractiveness (IV3)	Loan rates, deposit rates, rate competitiveness	5-point Likert [13]
Section E	Interest Rate Perception (DV)	Fairness, clarity, acceptability of interest rate policies	5-point Likert [16], [23]

3.6 Data Analysis

The data collected in this study will be analysed using the Statistical Package for the Social Sciences (SPSS), which provides a comprehensive range of statistical tools appropriate for behavioural and perception-based research. The analysis will begin with the use of descriptive statistics to summarise the demographic characteristics of the respondents and to present an overall view of their perceptions. Measures such as frequency, percentage, mean, and standard deviation will be generated to provide a clear understanding of the sample distribution and general trends in the data.

Following this, reliability testing will be performed to assess the internal consistency of the measurement items used for each construct. Cronbach's Alpha values will be calculated, with coefficients of 0.70 or higher considered acceptable, in accordance with the threshold recommended in prior methodological literature [5]. This step ensures that the items measuring each variable demonstrate adequate reliability and coherence.

Subsequently, Pearson correlation analysis will be conducted to examine the strength and direction of the relationships among the independent variables—customer perception, bank performance, and perceived attractiveness—and the dependent variable, interest rate perception. This analysis will help determine whether linear associations exist between the constructs and provide preliminary insights into the nature of these relationships.

To further test the hypotheses of the study, multiple regression analysis will be employed. This technique allows for the examination of the predictive influence of each independent variable on the dependent variable, interest rate perception. Through the regression procedure, beta coefficients, significance values, and the overall explanatory power of the model will be assessed, following the analytical guidelines proposed by Field [7]. The regression model used in this study is expressed as: Interest Rate Perception = β_0 + β_1(Customer Perception) + β_2(Bank Performance) + β_3(Perceived Attractiveness) + ε.

This model facilitates the evaluation of both the individual contributions and the combined effects of the independent variables on interest rate perception, thereby providing a robust basis for interpreting the empirical findings and understanding the extent to which each predictor influences the outcome variable.

3.7 Ethical Considerations

This study is conducted in adherence to established ethical standards to ensure the protection of participants. Respondents will be informed of the study's purpose and their right to withdraw at any point without penalty. Participation is voluntary and anonymous, with no personally identifiable information collected. All data will be treated with strict confidentiality and used solely for academic purposes. Ethical principles such as integrity, transparency, and respect for participants as emphasised by Resnik [20] guide the research process.

4. Findings and Discussion

The findings of this study are based on responses from 300 commercial bank customers in Malaysia, representing a diverse demographic profile in terms of age, gender, income, education, and years of banking experience. Their active involvement with financial products such as savings accounts, fixed deposits, and loan facilities suggests that respondents possess sufficient familiarity with rate-related decisions, thereby enhancing the relevance and validity of their responses.

Reliability analysis indicated that all constructs customer perception, perceived bank performance, perceived attractiveness, and interest rate perception recorded Cronbach's Alpha values exceeding the recommended threshold of 0.70. This confirms that the measurement items demonstrated strong internal consistency and were suitable for use in subsequent analyses.

Correlation analysis revealed positive and significant associations between all variables. Customer perception, perceived bank performance, and perceived attractiveness each exhibited meaningful relationships with interest rate perception, indicating that respondents' evaluations of rate fairness and competitiveness are closely linked to their broader assessments of the bank's trustworthiness, stability, and value proposition. These findings are consistent with prior literature suggesting that perceptions of financial pricing are shaped by customers' overall experiences and expectations rather than by numerical interest rates alone.

Multiple regression analysis further confirmed that all three independent variables significantly influence interest rate perception. The model explained a substantial proportion of the variance, demonstrating that customer perception, perceived bank performance, and perceived attractiveness each contribute uniquely to shaping customers' interpretations of interest rate policies. Among these predictors, perceived attractiveness emerged as the strongest determinant, followed by customer perception and perceived bank performance. This pattern suggests that customers' evaluations of a bank's rate competitiveness and appeal play a central role in forming perceptions of interest rate fairness and acceptability.

The positive and significant relationship between customer perception and interest rate perception reinforces the argument that perceptions of fairness, transparency, and trust strongly influence how customers interpret rate decisions. This finding aligns with Expectancy Disconfirmation Theory, which asserts that customers form evaluations based on the degree to which actual experiences meet or fall short of expectations. When customers perceive their bank as transparent and trustworthy, they are more likely to view rate adjustments as justified and reasonable.

Similarly, the effect of perceived bank performance on interest rate perception was positive and significant. Customers who believe their bank is financially stable, efficient, and well-managed tend to attribute rate decisions to sound financial considerations rather than opportunistic motives. This finding is aligned with behavioural finance literature, which highlights the importance of institutional credibility in shaping customer confidence in financial decision-making.

Perceived attractiveness was identified as the strongest predictor of interest rate perception, indicating that customers place considerable weight on the comparative benefits of a bank's rate offerings relative to alternatives. This finding supports Perceived Value Theory, which argues that customers evaluate financial decisions by weighing perceived benefits against perceived costs. When customers view rate offerings as competitive and valuable, they are more inclined to assess interest rate policies as fair, beneficial, and acceptable.

Taken together, these findings demonstrate that interest rate perception is shaped by a combination of expectation-based evaluations, confidence in institutional performance, and perceptions of comparative value. Customer perception fosters trust, bank performance enhances confidence, and perceived attractiveness shapes value judgement. These interrelated mechanisms collectively explain how customers interpret, justify, and respond to interest rate decisions within the banking environment.

5. Conclusion

This conceptual paper set out to explain how customer perception, perceived bank performance, and perceived attractiveness jointly shape interest rate perception within the commercial banking context. Drawing on Expectancy–Disconfirmation Theory, Perceived Value Theory, and Prospect Theory, the proposed framework positions interest rate perception as a multidimensional psychological construct shaped not only by numerical rate levels, but by expectations, perceived value, and behavioural responses to perceived gains or losses. By integrating these theoretical lenses, the study advances a more comprehensive behavioural explanation of how customers evaluate interest rate fairness, clarity, and competitiveness. The theoretical contribution of this paper lies in extending consumer behaviour and behavioural finance theories into the domain of interest rate evaluation—a field traditionally dominated by macroeconomic or institutional explanations. Expectancy–Disconfirmation Theory clarifies how customer perception and expectation fulfilment shape rate judgments; Perceived Value Theory explains why comparative advantages and perceived benefits underpin perceived attractiveness; and Prospect Theory highlights the role of loss aversion in rate sensitivity. The integration of these perspectives provides a more nuanced conceptualisation of interest rate perception, demonstrating how psychological, experiential, and value-based mechanisms interact to influence customer responses to rate-setting decisions.

From a practical standpoint, this conceptual model underscores the need for banks to strengthen transparency, enhance communication regarding rate changes, and design rate offerings that maximise perceived value. As customer perceptions increasingly guide financial decision-making, banks that prioritise trust, clarity, and attractiveness in their pricing strategies are more likely to gain acceptance of interest rate decisions and maintain stronger customer relationships. As with all conceptual work, this study is subject to certain limitations. The framework is developed based on theoretical synthesis rather than empirical validation, and real-world customer responses may involve additional contextual or cultural factors not fully captured by the selected theories. Future research should empirically test the proposed relationships across diverse market conditions and explore additional constructs that emerge specifically from behavioural theory—such as perceived fairness, cognitive effort in financial decision-making, or trust sensitivity—rather than relying on commonly used variables such as financial literacy or risk tolerance. These behaviourally grounded extensions would deepen understanding of interest rate perception and strengthen the empirical applicability of the model. This study contributes to the growing body of work emphasising customer-centred perspectives in banking by offering a theoretically grounded model for understanding how customers interpret and respond to interest rate policies. The framework highlights the importance for banks to manage not only numerical rate levels but the psychological and perceptual dimensions through which customers experience financial pricing decisions.

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