



Theoretical Analysis of the Transition from Traditional Banking to Digital Banking

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I. ABSTRACT :

The traditional banking practices are being replaced by a new era of banking - digital banking. In this study, we explore the trending concepts in the banking sector using a theoretical framework. Our aim is to understand the prospects of the theoretical foundations of traditional and digital banking and the reason for the shift. We examined the fundamental principles of traditional banking systems, key benefits of digital banking and platforms. To conduct our research, we used secondary data from online sources.

Keywords: Benefits, Digital banking, Principles and Traditional banking

II. Introduction :

Traditional Banking

For decades, banking has been an old-fashioned industry, with traditional institutions such as Bank of America and Banco Santander maintaining physical presences and domestic banking licenses. These banks frequently feature regional offices, self-branded ATMs, a large workforce, in-person customer care, and dedicated account managers. While traditional banking provides internet services, they are mostly a result of the bank's offerings. Traditional banking offers benefits such as local branch visits, security, personalized service, easier cash payments and withdrawals, and a broader selection of financial products. However, disadvantages include limited accessibility, risk-averse banks, the inability to conduct business with particular countries, outdated online banking, longer account opening processes, business hours, higher monthly expenses, and bureaucratic procedures for clients. In contrast, online banking promotes user interfaces.

Digital Banking

Digital banking is a transition to online banking, in which services are supplied via the internet. This digital banking system incorporates extensive process automation and web-based services, as well as APIs for cross-institutional service composition. It gives consumers access to financial data via PC, mobile, and ATM services. A digital bank is a virtual procedure that incorporates internet banking, mobile banking, and other features. It should enable all functional levels of banking across all service delivery platforms, such as head offices, branch offices, internet services, bank cards, ATMs, and point-of-sale equipment. To be called a fully digital bank, middleware solutions must be integrated in the middle and back ends, and financial institutions must keep on the cutting edge of technology to assure security and compliance with regulatory requirements.

III. Review of Literature :

Nila Armelia Windasari, et al., (2022), The study examines the impact of digital-only banks on Generations Y and Z, focusing on economic advantage, ease of use, social effect, firm reputation, promotion, features, curiosity, and reward. The research used a mixed-methods approach, interviewing 20 respondents and surveying 402 respondents aged 17 and above. Results showed that all variables, except curiosity and sales promotion, significantly influence individuals' inclinations to use digital-only banking. The study suggests that a user-friendly interface is crucial for improving the client experience, along with factors like accolades, distinguishing characteristics, and positive word-of-mouth, to provide outstanding customer experiences.

Bhadrapa Haralayya (2021), Previously Banking was a time-consuming process. Customers kept track of their financial history using official papers. Digitalization has made it possible for all users to conduct paperless banking. Technological improvements have significantly impacted India's banking sector. Banks have created new products and services to meet increasing customer demand. Banking operations, commodities, and services have all

undergone digital transformation. Customers gain from transactions that are quicker, more accurate, and more convenient. This has altered the way banks engage with their customers. By 2020, all industries will need to swiftly incorporate digital technologies.

Dr. C.B Pavithra & Dr. K. Geetha (2021), Digital banking has become an indispensable part of our lives, transforming financial transactions from brick-and-mortar to click. Customers are increasingly doing banking transactions on laptops, computers, and cellphones rather than paper. Technological improvements can persuade people to utilize digital banking by highlighting the advantages of these services. A descriptive study of 150 digital banking users found that respondents of all ages favored digital banking over traditional banking. They find digital banking to be convenient, widespread, and rapid, and they are satisfied with the services offered. The study goes over the implications, suggestions for enhancing digital banking services, and opportunities for further research.

Belbergui Chaimaa, et al., (2021), The emergence of electronic banking has revolutionized traditional banking by utilizing the internet and mobile technologies. This has boosted service delivery quality, reduced transaction costs, and enabled 24/7 service demand. However, it has increased the likelihood of fraudulent behavior, such as spamming, phishing, and credit card fraud. The essential issue is to retain financial security. This article provides an overview of electronic banking, discusses challenges and risks, and considers potential solutions.

Luigi Wewege, et al., (2020), The latest players in the financial services business, known as 'fintech', provide customer-centric and user-friendly financial services. Payment, money transfer, loans for small and medium-sized businesses, and microfinance are all services provided by digital-only neobanks. They encourage technological innovations like as digital wallets and peer-to-peer transactions. Fintech banks may lack size and trust and are unregulated, creating credit or liquidity risks to customers. Fintech's are seen as beneficial partners for big, conventional, and incumbent banks in their digital transformation initiatives. As the fintech sector expands, breakthrough ideas that have revolutionized digital banking will encourage collaboration and consolidation.

IV. Research Methodology :

The study utilized secondary data derived from online sources such as websites and journals to collect data.

Principles of Traditional Banking

1. Deposits and Loans

Deposits are funds mounted with an institution with the expectation that they will be reimbursed at any time or on a certain future date. A loan is money provided to a borrower with the expectation that it will be paid back with interest. Financial intermediation is the act of receiving deposits and granting loans.

2. Risk Management

The key principles are as follows: Risks may lead to losses. Capital offers the most protection against such losses. Capital should be changed to provide for the absorption of any losses produced by any risks.

3. Regulation and Compliance

Banking regulatory compliance refers to the standards and processes that financial institutions must follow in order to comply with industry regulations and other applicable laws. Regulatory compliance in banking applies to a multitude of industry characteristics, such as: Security and information technology. Mitigating risks.

4. Customer Service

Excellent customer service in banking is the art of offering personalized financial solutions and help that not only meet, but exceed, client expectations. It is the cornerstone for building trust and being competitive in a volatile sector.

5. Trust and Reputation

Trust and reputation have a tremendous impact on banks. Trust allows lenders to have guaranteed access to credit, but a lack of trust in investors makes access dependent on market conditions and lender reputation.

Principles of Digital Banking

1. Personalization & Customization

Utilize consumer data and insights to enhance the customer experience in mobile banking apps. By analyzing analytics data, you can identify common behaviors across consumer groups and create messages with links for customers to set up direct debit orders. Customize the user interface and users experience to cater to the diverse needs of mobile banking users. By allowing users to choose their preferred text size and icon positioning, you can make the app more convenient and user-friendly. By focusing on identifying common behaviors and allowing customization, you can create a more personalized and efficient mobile banking app experience.

Transparency

Transparency and feedback are crucial in user experience design, as they help build trust in digital banking apps. To make your app more transparent and trustworthy, consider the following UX design ideas:

- Use clear messaging to inform people about the repercussions of their choices.
- Use communication channels such as email and SMS to raise user awareness of essential tasks.
- Explain what follows, including the following step and any delays.
- Display what is currently underway, providing clear information about all ongoing processes.

- Use non-app alerts, such as email notifications, to notify users of critical events and changes in the process, particularly when user action is required.

By implementing these UX design concepts, your digital banking software may become clearer and more trustworthy to both new and returning customers.

2. Mobile First Approach

Mobile devices are increasingly becoming the major conduit for online banking services, with mobile phones being the most popular among clients aged 18 to 44. However, most financial services prioritize the mobile experience at the last minute, which is typically hurried. To accommodate mobile usage, designers should reduce and progressively eliminate information from web sites. On mobile devices, the primary navigation should be replaced with a huge menu or hamburger button rather than a horizontal row across the top. A mobile-first strategy extends beyond screen design by eliminating huge graphics or media from mobile devices and limiting their appearance to larger displays (660 pixels or more).

3. Simplicity

Digital banking apps should be simple to use, with a focus on important tasks and a minimum of clutter. To improve the user experience, banks should divide tasks into phases, get familiar with usage patterns, balance critical touchpoints, maintain suitable accents, use a consistent design language, and follow accessibility guidelines. Over density may frustrate customers, but splitting up activity into stages helps control attention and flow. Touchpoint balance and appropriate accents can improve the user experience. Adopting a consistent design language allows for a smooth and connected flow, whereas adhering to accessibility standards such as contrast, colour, and font size can help satisfy the needs of around 4% of the world's population with visual impairments.

4. Aesthetic Design

Users often develop their initial impression in 50 milliseconds, or one twenty-seventh second. To guarantee that your digital banking app makes a good impression and that customers have a pleasant experience, you should build a current and visually engaging user interface. The first tenet of contemporary and attractive design is to respect a state of balance. When developing a financial application, avoid overloading it with pictures, icons, and text. Clutter causes consumers to become confused and makes navigating more difficult. Also, avoid incorporating too many design trends. Maintain a consistent design style throughout the process.

Benefits of Traditional Banking

1. Personalized Customer Service

Traditional banking offers tailored customer service, with friendly professionals dedicated to assisting customers with their financial needs. This level of service is especially useful for those who prefer in-person interactions and the personal touch. Traditional banks usually assign professional relationship managers to their clients, who serve as a single point of contact for understanding their financial objectives and providing individualized advice and solutions. This individualized strategy develops a long-term relationship with the bank while also ensuring that financial obligations are met effectively, resulting in a positive customer experience.

2. Physical Branches

Another major benefit of traditional banking is the availability of physical bank branches. While internet banking is handy, some individuals prefer the security of having a physical location to visit. Traditional banks have physical branches in a number of locations, allowing customers to conveniently access their services. Having a physical branch nearby may be quite helpful, whether depositing cash, withdrawing funds, or seeking assistance. Furthermore, physical branches offer services such as notary services, safe deposit boxes, and speedy check clearing, which are not available at online-only banks.

3. Financial Security

Traditional banking ensures that your money is always safe and guaranteed, regardless of the bank's losses. There's also little to no concern about hackers, impersonators, and other security dangers to your account information or money. So long as you take the proper measures.

4. Access to Loans

Traditional banks have years of lending knowledge and rigorous controls on interest rates and payback periods to guarantee you receive a good deal and are not taken advantage of. Unlike the recent incidents involving loan sharks masquerading as digital lending services to scam consumers with high-interest loans and ludicrous payment alternatives.

Benefits of Digital Banking

1. Cost Savings

Automated programs that replace superfluous manual labor are one of the key methods for banks to save costs. McKinsey & Company portrays typical bank processes as costly, slow, and prone to human error. Relying on people and paper consumes office space, raising energy and storage costs. Digital platforms can further reduce costs by incorporating more qualitative data and responding faster to market changes.

2. Increased Accuracy

Traditional banks that rely mainly on paper processing might experience error rates of up to 40%, needing rework. This problem, along with a lack of IT integration across branch and back-office employees, reduces company productivity. By reducing the verification process, IT solutions may be readily integrated with business applications, resulting in more accurate accounting. Financial accuracy is required for banks to comply with government regulations.

3. Improved Competitiveness

Digital solutions aid in the management of marketing lists, helping banks to reach out to new markets and develop stronger relationships with tech-savvy customers. CRM software may keep track of client history and enable easy access to email and other types of online contact. It is effective for implementing consumer reward programs that can boost loyalty and satisfaction.

4. Greater Agility

The use of automation may accelerate both external and internal operations, which can boost customer satisfaction. Following the 2008 financial market crash, risk management became more important. Instead of employing and training risk management personnel, banks may use risk management software to identify and respond to market developments faster than experienced professionals.

5. Enhanced Security

All firms, large and small, are facing an increasing variety of cyber-related risks that might hurt their reputation. In February 2016, the Internal Revenue Service and a number of big IT companies announced that they had been hacked the previous year. Additional layers of security can help banks protect sensitive data.

The Shift from Traditional Banking to Digital Banking

The shift from traditional banking to digital banking happened gradually, driven by technological advancements, changing consumer expectations, regulatory changes, and competitive pressures from fintech companies. In the late 20th century, banks started adopting basic digital tools such as ATMs, credit and debit cards, and electronic fund transfers (EFT) to improve efficiency. The introduction of internet banking in the 1990s marked a significant turning point, allowing customers to check account balances and make transactions online. However, the major shift occurred in the early 2000s with the rise of mobile technology and the proliferation of smartphones. Banks began offering mobile banking apps, enabling customers to perform financial transactions anytime, anywhere.

The global financial crisis of 2008 further accelerated digital adoption, as banks sought cost-effective ways to operate while improving customer experience. Around the same time, fintech startups emerged, offering innovative digital banking solutions that challenged traditional banks. Companies like PayPal, Revolut, and N26 introduced fully digital banking models, pushing traditional banks to adopt similar strategies. The introduction of artificial intelligence (AI), blockchain, and cloud computing in the 2010s further enhanced the digital banking experience, leading to features such as AI-driven chatbots, automated loan approvals, and enhanced cybersecurity measures.

Another significant factor in the shift was the rise of regulatory support and financial inclusion initiatives. Governments and central banks encouraged digital banking to improve accessibility, reduce cash dependency, and enhance financial transparency. The COVID-19 pandemic in 2020 acted as a catalyst, as lockdowns and social distancing measures forced both banks and customers to rely heavily on digital banking services. Today, the shift continues as banks integrate neobanking, open banking, and decentralized finance (DeFi), making banking more accessible, faster, and cost-efficient. While traditional banking still exists for complex financial needs, the trend is clear: digital banking is the future, with continued innovation reshaping the financial industry.

V. Conclusions :

Traditional banking principles revolve around core functions such as deposits, loans, risk management, regulation and compliance, prioritizing excellent customer service, and maintaining trust and reputation. Conversely, digital banking principles emphasize personalization, transparency, a mobile-first approach, simplicity, and aesthetic design. Traditional banking excels at offering personalized customer service, having physical branches for accessibility, and ensuring financial security. On the other hand, digital banking offers cost savings, increased accuracy, improved competitiveness, greater agility, and enhanced security through automation and advanced technology.

The banking industry has undergone a significant transformation over the past few decades, evolving from traditional banking models to digital banking solutions. Traditional banking, characterized by physical branch visits, face-to-face customer interactions, and manual processes, has long been the foundation of financial services. It provides personalized customer service and a sense of trust, but it also comes with limitations such as restricted banking hours, high operational costs, and slower transaction processes. As technology advanced, consumer preferences began shifting towards more convenient and efficient banking solutions, leading to the rise of digital banking. Digital banking leverages online platforms, mobile applications, and automated services to provide 24/7 access to financial transactions without requiring customers to visit physical branches.

The transition from traditional to digital banking has been driven by several factors, including the widespread adoption of smartphones, the rise of fintech companies, advancements in artificial intelligence, and increasing customer demand for seamless, fast, and cost-effective banking solutions. Banks have responded by offering mobile banking apps, internet banking, AI-driven chatbots, and even fully digital banking models with no physical branches. The shift has also been fueled by regulatory support, cybersecurity advancements, and the need for financial inclusion. While traditional banking remains relevant, especially for complex financial services requiring personal consultation, digital banking is becoming the dominant model due to its efficiency, accessibility, and lower costs. The future of banking is expected to be a hybrid approach, where digital banking continues to evolve while traditional banks integrate more technology-driven solutions to remain competitive in a rapidly changing financial landscape.

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