

# Digital Transformation of the Banking System

Ms. Bharti

Assistant Professor in Commerce, KVA D.A.V. College for Women, Karnal, India

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**ABSTRACT:** The changing “habits of consumers and the new competitive environment are forcing banks to address their digitalization process as a matter of urgency if they are not to be left behind in a market which finds itself in the full throes of transformation. We have identified three successive stages in a bank’s digitalization process: the first, where new channels and products are developed; the second, featuring adaptation of the technological infrastructure; and the last, involving far-reaching changes in the organization, so as to achieve strategic positioning in the digital environment.”

day by day. Enterprises that adapt advanced digital technologies automatically gain a competitive advantage in the market. Along with consistency and usability, the digitization gives our business full control over end-to-end frontend and backend operations.”

## The shift from traditional to digital banking

Most “banks began their digital banking journey years ago with a clear strategy, even though there were major challenges along the way. The trend of digital banking started when the financial leaders realized a majority of their users are on digital channels. With the top-down implementation of digital strategies, the banking sector has become more client-inclusive and tech-savvy. What does the evolving shift from traditional to digital platforms look like?”

## I. INTRODUCTION:

How can we get “value out of your business in today’s world? Obviously by adopting digital transformation solutions, which are growing



We “are in the process of the fourth industrial revolution, which will unite machines and people, break up traditional value chains and create new business models. The development steps of the fourth revolution are exponential and no longer linear. Mobile devices accelerate the process because they have a network or multiplier

effect. Any information or services become” available within a “very short time, anywhere and for everyone. The big technology companies (Google, Apple, Facebook, Amazon) make their platforms open to the reach of millions of users.”

**Today’s demand of banking sector** is: anytime “anywhere banking. This requires innovative,

robust, secure, optimized and ready to meet the expectations of empowered and tech-savvy customers. An effective Digital Transformation begins with an understanding of digital customer behavior, preferences, choices, likes, dislikes, stated as well as unstated needs, aspirations etc. And this transformation leads to the major changes

in the organizations, from product-centric to customer-centric view. Digital Transformation is far beyond just moving from traditional banking to a digital world. It is a vital change in how banks and other financial institutions learn about, interact with and satisfy the customers.”



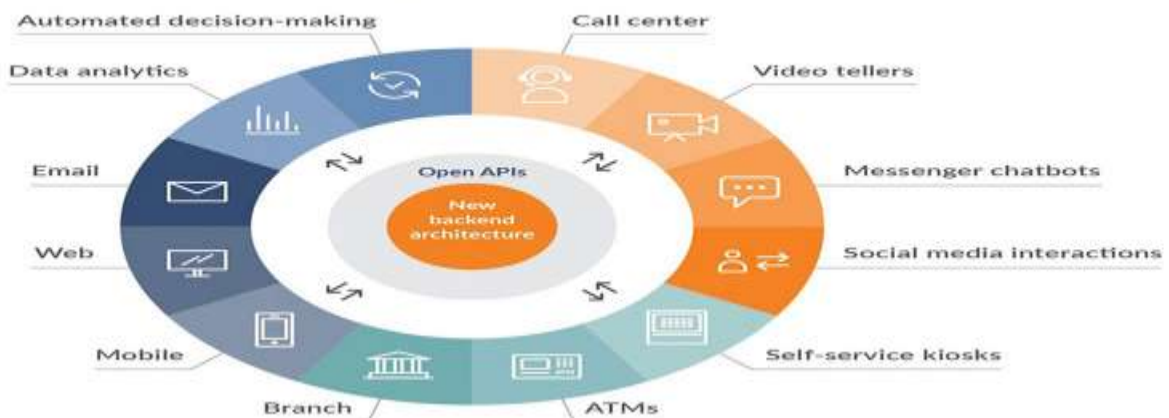
**Shift from product-centric to customer-centric approach:**

“Digital transformation in banking is not just a change; it is far beyond just moving from the traditional to a digital world. The entire concept of digital transformation strategy in banking is a vital process of how banks and financial institutions analyze, interact, and satisfy their customers. The basic approach of digitalization in banking begins with understanding customer behavior, preferences, and demands. As a result, the banking sector has transformed from product-centric to customer-centric approach.”

**What technologies are used in digital banking?**

The “most effective way to understand and bring the organization from traditional banking to digital banking is **Omni-Channel approach**. Omni-channel is a multichannel approach to customer service where all the channels are tightly integrated, keeping customer in the center of the integration. An omni-channel strategy brings all the key parameters – online and offline channels, data and technology, customer behavior and experience – all, onto one platform.”

**Omnichannel banking platform**



“Although the concept has there been for quite some time, companies shied away from using

it to their benefit, mostly due to critical considerations like increase in the number of apps,

technology support, operations, silos between branches and online services that need to be broken, and conflicting priorities. Business need to integrate the various management systems while implementing Omni-channel, which is multifarious, prolonged and an expensive affair. As customers continue to change their channel usage patterns, banks and credit firms need to focus on delivering a seamless customer experience across various touch points. More than just an axiom, Omni-channel banking is a prospect to take bottom-line on higher note by gaining insights from customers' channels, behavior and preferences. Today's customers are more sophisticated and tech savvy, and to cater to their specific needs, each customer needs a unique experience from banking. They want the companies to understand their unstated needs as well as their likes. So, it should come as no surprise that these customers are expecting similar kind of response and service from banking institutions too. From researching new

services, opening an account, checking balance, conducting transactions, loans, credits, wealth management, customer support, delivering an Omni-channel experience has become a key to success in this competitive market place."

#### Operating model

"Today, customers are in need of a hybrid experience, a combination of speed and convenience with personal attachment with the product. This is why the transforming banking sector follows three different operating models."

- (1) **Digital as a business** – This is generally at the management level.
- (2) **Digital as the new line of business** – This includes working at the next level as a separate digital division to take care of digital activities.
- (3) **Digital Native** – This involves a new setup with the business of their own technology stack that focuses directly on consumers.

#### Modernized infrastructure



"As mentioned above, achieving digital transformation is not just about implementing modern technologies. Today, the digital transformation in financial services has enhanced due to underlying infrastructure that facilitates data to the front-end operations. Therefore, modernizing the legacy infrastructure has played the most critical factor in driving digital transformation in banking."

#### The power of data

"Banking and financial institutions are well aware of the power that consumer data attains. This means implementing more data analytics practices to analyze and monitor customer patterns. This has helped the banking sector produce more

relevant products and services aligned with customer needs. This is probably why major fintech enterprises outsource data analytics requirements to development companies."

#### Complete digitally-driven market

"We cannot forget how not just banking but every sector such as industrial, eCommerce, agriculture, IT, etc., are moving ahead with digital capabilities. This includes business culture, technologies, strategies, and skills that contribute to a digital transformation journey. Hence, the entire consumer market is on the edge of transforming digitally, which is one of the driving reasons for digital banking transformation."

“So far, we have been talking about digital whereabouts in banking and similar financial institutions. However, we are yet to discover what technologies lead to this transformation in banking. Let’s take a broader look at some of the major tools and technologies used by banks to improve digital lending and enhance customer experience.”

#### **Artificial intelligence (AI)**

“AI in banking is leveraged by online assistants and chatbots that resolve customer issues by providing necessary information. Along with this, artificial intelligence is used for the purpose” of data “analysis and management, data security, and enhanced customer experience. For instance, AI can detect repetitive patterns by analyzing consumer data within seconds.”

“**Machine Learning (ML)** Machine learning is another companion for banks that has the potential to gather, store and compare user data in real-time. One of the biggest advantages of using Machine learning in the banking sector is fraud detection. It is easier to detect any change in the user action and take a timely preventive measure with machine learning.”

“Internet of Things (IoT) IoT is super helpful with real-time data analysis, making the customer experience more personal and tailored. Thanks to IoT and its smart connectivity among devices, customers can seamlessly make contactless payments within seconds. Besides, the internet of things has transformed the financial ecosystem by introducing risk management, authorization processes (biometric sensors), and access to multiple platforms.”

“Blockchain Every discussion on digital implementation in banking is incomplete without blockchain. The integration of blockchain in the financial sector has resulted in secured data transactions, more accuracy, and an enhanced interface. Modern customers rigidly trust blockchain solutions and believe that it has made transactions and other banking operations more transparent and convenient. In fact, the fusion of blockchain and IoT (BIoT) has been one of the biggest digital banking technology trends.”

“Cloud computing and APIs Cloud computing is by far the most popular technology utilized by banks and financial sectors. A cloud-driven service results in improved operations, better productivity, and instant delivery of products and services. With the integration of the cloud, banks are now more open to using banking APIs to promote data sharing and enhance the overall experience.”

“A common trend in banking technology is using an application programming interface (API) to make proprietary data available to anyone who has the consumer's permission to access it.”

“**Big data analytics** Modern customers don’t look at banks the same way they used to look a decade ago. All thanks to big data technology that helps banks in analyzing customers’ expenditures, monitoring risk, and managing feedback to increase customer loyalty. Data analytics solutions have brought new prospects for banking development and have been prompt in responding to growing market demands.”

#### **Compliance**

“Switching to the modern digital financial management system has made it easier for banks to stay compliant. Advanced features such as auto auditing helps employees to spend less time on auditing reports and documents. The digital data stays standardized and can be shared on multiple platforms without any error.”

Besides, the digital payroll system on cloud gives timely updates which means the banks do not have to worry about updating regulations.

“Easier acquisition of new customers Businesses require customers just as customers require services. Since financial institutions are no longer passive about their services, it has become cheaper and easier to attract new customers not just for banks but for every other sector. With instant online payment, every customer and business can operate hassle-free.”

“Business innovation and adaptability The emergence of social channels, shopping portals, and mobile banking applications has opened doors for banks and other businesses to reach out to their customers. This banking digitization has led to new business innovations that are highly reliable on banking services.”

“Enhanced security Customer data security is one of the rigid issues that companies and institutions are struggling to overcome. Banks can now protect sensitive data with sophisticated software development services and save accounts from scammers, hacker attacks, phishing, etc.”

“Personalized offerings Digital transformation in banking and financial services has allowed banks to serve exactly what customers need. Instead of guesswork, financial institutions have started formulating their products and offers according to the customer’s daily expenses, and this is by far the biggest benefit of digital banking to its users.”

“Looking at the above benefits, more enterprises and businesses have adapted to digital transforming solutions and services for better opportunities.”

### **Some Examples of Digital Transformation in Banking:**

#### **Mobile applications:**

“Mobile apps are designed to help businesses in all kinds of ways. With banking apps, one gets hold of its financial data, tailored options, bank accessibility, and personal financial management. However, this is not just limited to the banking sector; any business application helps an enterprise to understand and serve its customers personally. This is probably why over 82% of businesses with a digital presence have their own withstanding application using app development services.”

#### **Evolution of payment methods:**

“We can already see an unprecedented change in payment methods. The use of cash is falling while card payments are increasing. However, the share of online payments is also increasing significantly. Online casinos are an example of this. Time and again, new payment service providers are added, especially those active in this industry.”

#### **Improved use of data/ big data:**

“The world is going digital: digitalization and the new ways of collecting and evaluating data give the previously unseen possibility to proactively estimate customers’ needs. Data is the gold of the 21st century, and it is precisely this data that can be collected and evaluated with the help of Big Data. Financial institutions in particular have access to a large amount of data that is currently simply not used. The amount of data will also grow exponentially over the coming years, so that there are many advantages to using the data correctly.”

#### **Cloud Computing:**

“More and more banks are outsourcing services to cloud providers. Instead of maintaining their own and, above all, costly data centers, the banks rely on external data centers. Clouds are a predestined platforms for cooperation with fintechs in particular.”

“IT-experts expect cloud computing to become increasingly relevant over the next few years. The technology is already in high demand and essential among industry experts. In the banking industry, the technology is mainly used in mobile banking and payment services. Other areas such as CRM (customer relationship management),

trading and evaluation processes are also possible use cases.”

#### **Digital Coins:**

“Automating and using digitally-driven solutions like chatbots and AI are also part of many bank digital transformation strategies. J.P. Morgan Chase takes this to an extreme level, integrating COIN to handle and process loan agreements. The same AI integrates into customer service, offering assistance, account creation, and much more. Here, solutions like self-service, chatbots, and 24/7 service offer business advantages while improving customer experience.”

## **II. CONCLUSION:**

“Digital transformation in banking is a cultural, organizational and operational change through technologies. In its most basic sense, digital transformation is the transition to digital customer services via the internet. In a broader sense, digital transformation means improvements in a wide range of areas related to offerings, process automation, customer experience, data integration, organizational flexibility and sales. A digital transformation in banking unlocks the speed and innovation of the cloud from anywhere while addressing regulatory compliance, security and resiliency requirements.”

“As the digitalization of banking business evolves, it would be desirable to construct appropriate metrics in common across the entire financial system, and which are applied transparently to the market. This should be done in such a way as to be able to check on whether the investments made are appropriate and whether they produce the expected results, where this is done on comparable terms among institutions and countries. This exercise should be carried out by both the banking institutions, to chart their progress, and the authorities, to monitor financial systems.”

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