

A Study on The Digital Tsunami

How Digital Banking Is Reshaping the Traditional Financial Landscape.

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Abstract—The rise of digital banking has fundamentally transformed the financial landscape shifting how individuals and businesses interact with financial services. This paradigm shift is driven by a confluence of technological advancements, evolving consumer expectations and a push for greater efficiency and accessibility. The rapid ascent of digital banking is fundamentally transformed the global financial sector, challenging the long-established paradigms of traditional banks. This services, encompassing online and mobile platforms, and its profound impact on conventional banking models. We analyze how the convenience and accessibility offered by digital channels have redefined customer expectations, leading to increased competition from agile neo banks and FinTech companies. While traditional banks grapple with challenges such as legacy systems and the imperative of digital transformation, they also possess inherent strengths like trust and established customer bases.

Index Terms—Role of Traditional Banking in India, Benefits of Traditional Banking, Is Digital Banking is so Important in India, Challenges for Digital Banking in India:

I INTRODUCTION:

A digital bank is a financial institution that operates online and provides its customers the services that were previously available only at a bank branch. Digital banking involves the digitalization of all traditional banking products, processes and activities to serve customers through online channels. A financial institution plays a crucial role in providing digital banking services, ensuring that customer can access secure and efficient online all the traditional banking services that are available 24/7 on mobile phones, computers and compatible smart devices, without the need for customers presence in the bank branch.

The global financial sector is in the midst of a profound revolution, driven by the relentless rise of digital banking. What began as an extension of traditional services has evolved into a dominant force, fundamentally altering customer expectations, competitive dynamics and the very operating models of financial institutions. These articles explore the ascent of digital banking and its multifaceted impact on established banks.

Digital banking, encompassing online and mobile banking platforms, has ushered in as era of unprecedented convenience and accessibility. Customers can now manage their finances 24/7 from anywhere in the world, performing a wide array of transactions from checking balances and transferring funds to paying bills and applying for loans all without the need to visit to physical branch. The COVID-19 pandemic significantly accelerated this shift, as lockdowns and social distancing measures pushed even the most traditional customers towards digital channels.

This revolution has spurred significant changes in consumer expectations. Modern customers, accustomed to instant and seamless experiences in other aspects of their lives, now demand similar efficiency and personalization from their banks. This has led to the emergence of agile “neobanks” and FinTech companies that are built entirely on digital foundations, offering innovation services, often with lower fees and more user-friendly interfaces, further intensifying the competitive landscape for traditional institutions.

As a result, traditional banks, with their legacy infrastructure and reliance on physical branches, face immense pressure to adapt. While they possess the advantage of trust and established customer bases, they must invest heavily in digital technologies,

streamline operations, and redefine their customer engagement strategies to remain relevant and competitive in this evolving financial ecosystem.

II RESEARCH OBJECTIVES:

1. To analysis the transformation impact of the rise of digital banking on the traditional banking.
2. To identify the benefits and challenges in the study area.
3. To explore opportunities of traditional banks.
4. To assess the future outlook for banking.

III SIGNIFICANCE OF THE STUDY:

1. Analyzing the future of the traditional banking.
2. The research will help us to know the importance of traditional banking.

IV ROLE OF TRADITIONAL BANKING IN INDIA:

Traditional banking has been the bedrock of India's economic growth for decades, laying the fundamental groundwork that digital banking now builds up on. Historically, commercial banks, particularly public sector banks after nationalization, played a crucial role in mobilizing savings from the populace, even in remote areas, through their extensive branch networks. These accumulated deposits were then channeled as credit to various sectors of the economy, including agriculture, small and medium sized enterprises and large industries. By providing essential financing, supported infrastructure development, and facilitated entrepreneurial ventures, thereby stimulating job creation and boosting overall economic output.

They also played a vital role in implementing government policies, extending financial services to underserved populations and ensuring a degree of financial stability by managing the country's money supply. Before the advent of widespread digitalization, traditional banking was the primary mechanism through which financial intermediation occurred, enabling the flow of funds from savers to investor's and serving as a critical catalyst for India's post-independence economic development.

Perhaps the most significant impact of digital banking is the recalibration of customer expectations. Modern

customer expectations. Modern consumers, accustomed to the instant gratification and seamless experiences offered by tech giants, now demand similar convenience, speed and personalization from their banks. They expect 24/7 access to their accounts, mobile- first interfaces, real-time transactions and intuitive self-service options. Traditional banks, with their often branch-centric models and slower processes, are grappling with their shift. Neobanks and fintech, built from the ground up on digital principles, have capitalizes on this demand, offering quick account setups, lower fees, and highly customer-centric offerings that often outpace established institutions.

Digital banking has profoundly impacted traditional banking, leading to significant shifts in operations, customer behavior, and shifts in operations. Numerical data from recent studies and describe the types of visualizations that would typically represent this information.

Here is an overview of the numerical data illustrating this impact:

1) Cost efficiency:

- Digital only banks operate with 60-73% lower costs per customer compared to traditional banks. This significant cost advantage is due to the absence of physical branch overhead and automated processes.
- Traditional banks embracing digital transformation can see 20-40% reductions in operating costs, primarily through automation and optimized processes.

2) Traditional bank branch footprint:

- Traditional banks have reduced their physical branch networks by 31% since 2018, with an accelerated 9% reduction in 2023 alone.
- In the U.S., the total number of bank branches declined by 5.6% from the end of 2019 to mid-2023.

3) Customer adoption and preference:

- In 2023, 72% of adults in the US used online banking.
- Approximately 54% of Millennials prefer online banking over traditional banking.
- Over 76% of American customers use mobile banking apps.

- 77.1% find digital banking platforms easy to use.
- 83% report satisfaction with digital banking services compared to traditional methods.

4) Customer behavior and engagement:

- Digital – only bank customers conduct 2.8 times more financial transactions, through these transactions have a 37% lower average value compared to traditional bank customers. This indicates higher frequency of smaller transactions in digital channels.

5) Customer satisfaction Net Promoter Scores:

- Net Promoter Scores (NPS) are significantly higher for digital- only banks average 68 compared to traditional institutions average 34.
- Digital only banks also report 92% customer retention rates.

6) Security and Trust:

- Paradoxically, establishes digital- only banks often outperform traditional institutions in certain security metrics.
- 72% lower incidence of successful phishing attacks.
- 43% faster fraud detection response times.
- 57% higher customer trust ratings regarding data protection.

7) Fintech market growth vs. Traditional banking:

- The global fintech market was valued at USD 294.74 billion in 2023 and is projected to reach USD1,152.06 billion by 2028, showing massive growth.
- Revenues in the fintech industry are expected to grow almost three times faster than those in the traditional banking sector between 2022 and 2028 15% annual growth for fintech vs. 6% for traditional banking.
- The number of digital banking users in the U.S., is projected to grow from 197 million in 2021 to almost 217 million by 2025.

V BENEFITS OF TRADITIONAL BANKING:

- Personalized Service and Human Interaction:

One of the most significant advantages of traditional banking is the ability to interact with a human being. For complex financial decisions like mortgages, business loans, investment planning and many more, this personal touch fosters trust, allows for tailored advice and can be invaluable for resolving intricate issues that might be difficult to address through automated system.

- Cash handling and physical transactions:

Traditional banks excel at handling physical cash customers can easily deposit withdraw large sums of money, get change like safe deposit boxes. This is particularly crucial for businesses that deal extensively with cash or individuals who prefer to manage their money in physical form.

- Established Trust and Security:

For many, the physical presence of a brick-and-mortar bank instills a greater sense of security and trust, especially when dealing with significant financial assets. The tangible nature of a bank branch can be reassuring and customers may feel more confident depositing larger sums of money in a physical location.

- Extensive ATM Networks:

Traditional banks typically boast vast networks of ATM's making it easy for customer to withdraw cash or perform basic transactions almost anywhere. While digital banks might offer ATM fee reimbursements, the convenience of a readily available, bank owned ATM network remains a strong point for traditional institutions.

- Financial stability and regulation:

Traditional banks are generally subject to a higher degree of regulation and oversight, contributing to the overall stability of the financial system. This regulatory framework aims to protect depositors and maintain confidence in the banking sector.

- Trust and Comfort:

Many individuals, especially older generations, feel more secure and comfortable handling their finances through in-person interactions, where they can ask questions and receive direct assistance.

VI IS DIGITAL BANKING IS SO IMPORTANT IN INDIA:

Digital banking has become incredibly important in India for a multitude of reasons, impacting both individuals and the overall economy.

VII HERE'S ARE THE DOWNSIDE OF DIGITAL BANKING:

- **Security Risks and Cyber Threats:** This is arguably the biggest concern.
- **Phishing and Scams:** Users, especially less digitally literate ones, are vulnerable to phishing attacks, malware and other scams designed to steal sensitive banking information or trick them into unauthorized transactions.
- **Data Breaches:** Despite robust security measures, digital platforms are susceptible to data breaches, compromising customer financial and personal data.
- **Newer threats:** The rise of the AI- driven cyber threats, sophisticated ransomware attacks, and mobile security vulnerabilities like SIM swapping present evolving risks.
- **Financial Fraud:** A significant portion of cybercrimes in India are related to UPI and internet banking fraud.
- **Language Barrier:** While apps are becoming multilingual, a significant portion of the population might still face challenges due to language differences or complex financial jargon.
- **Resistance to change:** Some individuals, especially those accustomed to traditional banking, may resist the shift to digital methods due to a lack of trust or familiarity.
- **Internet connectivity:** Reliable and affordable internet connectivity is not universal across India, especially in remote areas. This can hinder access to digital banking operations.
- **Power Outages:** Unreliable electricity supply in some regions can disrupt digital banking operations.
- **System Glitches and Downtimes:** Technical issues, app glitches or server downtimes can prevent users from accessing their funds or completing transactions, leading to frustration and potential financial losses.
- **Absence of Human Touch:** Many customers, particularly in a relationship driven society like India, prefer face-to-face interaction for complex transactions, problem-solving, or building trust with

their bank. Digital banking lacks their personal connection.

- **Keeping up with technology:** Users need to have updated devices and software to utilize the latest features and security patches, which can be a barrier for some.
- **Vulnerability to Disruption:** If a user's device is lost or stolen, or if there is widespread network outage, access to funds and banking services can be severely impacted.

VIII CHALLENGES FOR DIGITAL BANKING IN INDIA:

1. **Cyber Security and Fraud Management:**
 - **Evolving Threats:** Staying ahead of increasingly sophisticated cybercriminals requires continuous investment in technology, talent, and intelligence.
 - **Public Awareness:** Educating the masses about cybersecurity best practices, identifying scams, and reporting fraudulent activities is a monumental task.
2. **Bridging the Digital Divide:**
 - **Infrastructure Development:** Expanding robust internet and power infrastructure to every corner of the country is crucial.
 - **Digital Literacy Programs:** Implementing widespread and effective digital and financial literacy programs tailored to diverse demographics and linguistic groups.
 - **Accessibility for All:** Designing interfaces that are simple, intuitive, and accessible even for those with limited tech proficiency or disabilities.
3. **Regulatory Framework and Consumer Protection:**
 - **Adapting Regulations:** Regulators like the RBI face the challenge of creating a dynamic framework that fosters innovation while ensuring consumer protection, data privacy, and financial stability in a rapidly evolving digital landscape.
 - **Dispute Resolution Mechanisms:** Strengthening and streamlining dispute resolution processes for digital transactions to build greater consumer trust.

- **Data Privacy:** Ensuring robust data protection measures for the vast amounts of personal and financial data collected by digital banking platforms. The Personal Data Protection Bill, once enacted, will be crucial here.

4. Building Trust and Confidence:

- **Addressing Concerns:** Overcoming public apprehension related to the security of online transactions and the absence of physical interaction.

- **Consistent Experience:** Ensuring a consistent, reliable, and user-friendly experience across all digital channels to build long-term trust.

- **Competition and Viability of Digital-Only Models:**

- **Revenue Generation:** Neo-banks and digital-only players face challenges in generating sustainable revenue, especially with restrictions on interchange fees and the need for significant capital investment.

- **Licensing and Regulation for Digital Banks:** The regulatory landscape for purely digital banks (beyond Digital Banking Units) is still evolving, which can create uncertainty for new entrants.

5. Interoperability and Standardization:

- Ensuring seamless interoperability between various digital payment systems, banks, and financial service providers is crucial for a unified digital financial ecosystem.

- Despite these challenges, India's proactive approach to digital transformation, coupled with initiatives like UPI and Jan Dhan, suggests a strong commitment to overcoming these hurdles and further solidifying digital banking's role in the nation's financial future.

IX STATEMENT OF THE PROBLEM:

The rise of digital banking presents a complex set of challenges for traditional banks, fundamentally altering the competitive landscape and customer expectations. One primary problem is the erosion of traditional revenue streams and customer loyalty. Digital only banks and fintech companies leverage agile technologies and lower overheads to offer more

convenient, often cheaper, and highly personalized services, attracting a significant portion of the younger, tech-savvy demographic. This leads to reduced footfall in physical branches, declining reliance on conventional banking services, and a shift in customer preference towards seamless digital experiences, thereby impacting traditional banks' ability to retain existing customers and acquire new ones.

Furthermore, traditional banks face the significant hurdle of digital transformation and technological obsolescence. Modernizing their often-legacy IT infrastructure is a costly and complex endeavor, requiring substantial investment in new technologies like AI, machine learning, and big data analytics to offer competitive digital solutions. Many traditional banks struggle to keep pace with the rapid technologies' advancements and innovation cycles of digital challengers, leading to a disparity in service offerings and user experience. This delay in adopting cutting edge technologies can result in outdated platforms, less intuitive interfaces, and slower services delivery, making them less attractive to digitally inclined customer base.

Finally, the shift to digital banking also introduces new risks and operational complexities for traditional institutions. While digital banking offers enhanced security features, it also exposes banks to increased cyber threats, fraud, and data breaches. Managing these evolving security risks while simultaneously maintaining regulatory compliance across both traditional and digital channels adds a layer of complexity. Moreover, balancing the need for digital convenience with the personalizes, in –person service still preferred by populations or those with complex financial needs, poses strategic dilemma. Traditional banks must find a way to integrate their physical presence with a robust digital offering, or risk alienating significant portions of their customer base.

X CONCLUSION:

Despite the rapid advancements and widespread adoption of digital banking, traditional banking with its physical presence and emphasis on human with its physical presence and emphasis on human interaction, retains critical advantages that digital only models struggle to replicate. The cornerstone of traditional banking's enduring strength lies in the trust and

security it inherently projects through its established infrastructure and regulatory oversight. For many, the ability to walk into physical branch, speak face-to-face with banker, and receive tangible proof of transactions provides a level of reassurance that digital interfaces, no matter how secure cannot fully match. This is especially crucial for complex financial decisions like mortgages, business loans or wealth management where personalized advice, tailored solutions and ability to build a long-term relationship with a financial advisor are invaluable.

Furthermore, traditional banks offer a wide array of comprehensive financial services under one roof, often including specialized products like safe deposit boxes, notary services and in person cash handling capabilities that are often limited or absent in purely digital banking models. this breadth of service caters to a diverse customer base, including those who may be less technologically literate or prefer traditional methods for certain transactions. The established ATM networks and the ease of depositing cash at physical branch remain significant conveniences for many, which digital banks often struggle to provide without relying on third-party network or inconvenient workarounds.

While digital banking excels in routine transactions, it often falls short in delivering the empathy nuanced understanding and personalized support that complex financial situations demand. Technical glitches, security concerns and the impersonal nature of Chatbot's can lead to frustration and a sense of detachment for customers facing significant financial challenges. Traditional banks, by contrast, offer a human touch that fosters stronger customer relationships and allows for more effective problem solving and tailored guidance.

In conclusion, while digital banking has forced traditional banks to innovate and integrate technology, it has also highlighted the irreplaceable values of human interaction, comprehensive service offerings and the inherent trust associated with physical institutions. For a significant segment of the population, and for critical financial needs, the solidity, personal touch, and extensive support offered by traditional banking models continue to provide a more secure, reliable and ultimately, more satisfying banking experience. Traditional banking, far from being obsolete, continue to be a vital pillar of the

financial landscape, adapting while retaining its core strengths that digital solutions cannot fully replicate.