

# Chapter 5

## Impact of the Digital Transformation Process on Bank Relationships With Customers

C. Suresh

AVVM Sri Pushpam College (Autonomous), India

### ABSTRACT

*Modern world digitalization is inevitable. The role of digitalization in the banking sector has altered customers' preferences and demands. The latest innovation and developments in the digital era have affected the banking industry and the effects on the relationship between customers and banks. The banks' new digital focus has to be aligned with other factors in the banks for them to function effectively. The purpose of this study is to investigate how the banks' relationship with customers is affected by this digital focus. It indicates that the relationship with customers has become less personalized and more automated. It also shows that an alignment in the bank has contributed to increased satisfaction among digitally oriented customers.*

### INTRODUCTION

The introduction of the most recent digital developments in the banking industry implies that retail banks' role in the financial sector has changed. The pace of digital developments and the fact that the industry is becoming more digital-oriented have opened the way for new competitors to establish themselves in the financial services market. For years, retail banks were protected by the industry's high entry barriers. However, the development of digital technologies has lowered the entry barriers for more innovative businesses to capture parts of the incumbent banks' value chain. This has made it possible for non-financial competitors to establish themselves in the industry by offering more niche and customized financial services and products.

Recent innovations in digital technology have resulted in increased competition from innovative firms, but it has also sparked a change in consumer preferences and demands that have altered the relation-

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ship between the consumers and retail banks. Consumers are today more willing to conduct their bank errands through digital platforms.

Digital transformation may look different in every industry. It requires the integration of digital technology into every area of an industry or a business. This integration of technology brings fundamental changes in the operation of the business and delivers value to its customers. Digital transformation in banking has helped in reducing costs and simplifying the process. It has made banking easy and convenient. The end-to-end integration helps in ensuring a seamless and engaging customer experience.

## **THEORETICAL BACKGROUND**

For the current article digital transformation is understood as a multilevel technology-based change in the firms that includes both the exploitation of digital technologies to improve existing processes and their efficiency and the exploration of digital innovation, which can potentially transform the business model. Transformation refers to a fundamental change within the organization, which has a major impact on organizational strategy and structures and the distribution of power. For this article digital transformation is referred only to as Banks' Relationship with Customers.

Traditionally the banking industry has conducted its businesses with consumers through face-to-face interactions. However, as of late, retail banks have increased their use of digital platforms as supplementary channels to branch offices to offer their products and services to consumers. These supplementary channels allow banks to offer more personalized service at any time and anywhere geographically more effectively. The idea is that by using more digitalized platforms, the customers' involvement will increase and, therefore, create a more loyal customer base. This increase in involvement among customers allows the banks to operate more effectively and more cost-efficiently since customers can perform their errands through the bank's digital channels, such as the internet bank.

## **LITERATURE REVIEW**

In this study, the literature has been used to get an understanding of how the current situation looks like in the areas of interest for the study and to discover the theoretical perspectives that are of relevance for the study. This was done to gain an insight into the subject, but also to raise awareness of different angles in the relevant areas (Saunders et al., 2016).

Rather than providing a complete summary of the relevant theories, they've instead been focused on the most relevant parts. This is because customer relationship management and digital strategy are very large areas, and not everything in them was of interest in the study. The chosen method is reminiscent of a narrative literature review that has a narrow scope that only includes the relevant part of the literature (Saunders et al., 2018).

The transformation of the digital world has an impact on the financial industries nowadays, reshaping the banking business model. The steps towards digital banking include business process developments, new business models, and an entire change of the banking value chain, with predilection on six interest areas: the banking operational processes, the banks' clients, the revenue models, the digital platforms, data-base driven models and banking value chain (Gasser et. al., 2017).

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