

# Digital Transformation of Business Models in the Banking Sector

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## ABSTRACT

Many elements of society, particularly the economy and business, are affected by digital revolution. As a result of digitization, human error has diminished, and client loyalty has increased. Thanks to internet banking, customers now have access to financial services 24 hours a day, seven days a week. Digitization has helped consumers as well, because it has enabled digital payments. Customers no longer need to keep currency on hand, and transactions may be completed at any time and from any location. Businesses lose previously unknown possibilities and new economic activity as a result of digital transformation, resulting in new sorts of firm relationships with customers and employees. Business practices, on the other hand, are being altered, and new business models are being created. Technology, being the major driver of change, is at the core of digitization. Because digitization is such a hot topic these days, many businesses are interested in learning more about it. The banking sector has always conducted business with consumers in person. Financial institutions have increasingly increased their usage of digital platforms as supplementary channels to branch locations, despite their capacity to apply their products and services to clients. These extra channels allow banks to provide a more personalized experience at any time and from any location. Customers' involvement would grow as a result of embracing more digitalized platforms, according to the theory, and a significantly more devoted clientele base would be established as a result. This case study will look at how digitization affects bank business models and evaluate how banks in the Latvian financial industry employ financial technology to provide banking services.

**Keywords:** *Digital transformation, Business models, Banking sector, Financial technology.*

## 1. INTRODUCTION

60 percent of global bank executives believe that the lines separating sectors are becoming increasingly blurred. As a result, banks will confront new competition. Innovative Financial Technology companies and ecosystems that bring together financial and non-financial firms are among them. The term "digital transformation" is still a hot topic in many business discussions today. As part of the digitization process, modern technology has a direct impact on numerous areas of human beings, society, and the economy as a whole. As a result of digitization, new market participants have arisen, using an agile market entry strategy and creative business models to compete with 20th-century industry titans. As a result, new organizational features have evolved in today's digital environment: if enterprises want to save money, they must be flexible, adaptive, and fast to respond to these breaking forces.

Clients rely on digital disruptions all the time, and new types of solutions are being produced in this space. As a result, new banking business models are necessary to emphasize all important banking operations. The transition to e-banking, on the other hand, is the result of other equally important concerns, such as the need for banks to respond to new technical data as it becomes available, as well as the need for banks to meet regulatory standards. A significant amount of banking transactions is now conducted on people's desktops or smartphones. Yet again, more apps keep surpassing the channels for traditional banking owing to the diversity of available possibilities, inclusive of the cost and time channels due to the diversity of possibilities available, as well as the time, cost-reduction, plus the usability of bank branches.

Besides, owners-customers get real-time data with regard how valuable their investment products are, incentives from the banking institutions, as well as the incurred expenditures via digital media so as to secure a tax treatment that is more favorable courtesy of the said

apps. Mobile banking is increasingly being adopted by all smartphone owners, not just younger people, due to the aforementioned benefits.

## **2. LITERATURE REVIEW**

From the outset, one must grasp the definition of the term "business model." This sentence can be interpreted in a variety of ways, but the underlying idea is the same in all of them. A business model is defined as a framework for businesses develop and distribute value to its range of customers, as well as the methods for acquiring a portion of the said value. Therefore, business model can be viewed as a representation of strategy and is used to analyze and communicate strategic decisions. A business model outlines the value that a company gives to its customers and partners by defining the core, underlying logic of an enterprise organization.

A business model enables a firm in defining its core business nature with regard to what they truly do, their offerings, as well as presentation of those offerings, what is the major value given" [4]. A company's ability to differentiate itself from its competitors is aided by the value it provides to customers. The aspect of value addition includes resources, relevant skills, as well as the processes; the element of benefiting includes the value realized, products, and services; the consumer element entails customer segmentation, consumer channels, as well as customer relations.

Due to their potential to better explain the discrepancies seen in the performance of different companies, business models have been a popular area of research over the last two decades [1]. According to both theoretical and empirical studies, choosing the right business model may help firms gain long-term competitive advantages and enhance financial-related productivity. In the field of management studies, the phrase "business model" was originally coined. A business model was viewed as a balance-based firm approach at the time.

## **3. APPLICATION OF BUSINESS MODELS**

Businesses' ultimate goal is the combination and integration of the said models of business components such that they mutually complement each other. As a result, it creates the possibility for a company to survive and prosper when competitors find it difficult to reproduce and imitate its business model. Organizations can be successful for a long time if they adapt to their changing environment on a regular basis. Dynamic capabilities is the ability of a company to adjust its physical, organizational, and human resource bases in response to technological or market developments in a volatile environment.

As a consequence, firms who are ready to alter their business strategies can stay competitive. Firms should research various choices, have a comprehensive understanding of and insights into respective requirements of customers, and an extensive knowledge of the company's value chain to achieve more on the marketplace using the desired model of business . This helps one to grasp how a company provides its customers with what they want in the quickest and most cost-effective manner possible. As a result, the ability to adapt a business model to a changing environment is seen as a dynamic skill.

Sensing, seizing, and reconfiguring are the three primary actions in the "dynamic capacity" strategy. These methods aid firms in adjusting to the environment and fulfilling changing market needs consummate with their business strategy. Initially, technology and models of business sensing is thought to refer to a company's technological adaptation capabilities to new models of business concepts, inclusive of the discovery of alternate models of business among fierce rivals and throughout the segment.

Businesses' ultimate goal is to bring together and integrate the said business model components such that they mutually complement each other. As a result, it is possible for a company to survive and prosper when competitors find it difficult to reproduce and imitate its business model. Organizations can be successful for a long time if they adapt to their changing environment on a regular basis. Depending on the methods used, these techniques might be classified.

## **4. FINANCIAL TECHNOLOGY (FINTECH) BUSINESS MODELS**

An examination of the numerous ways to define financial technology as to their prevailing understanding in the literature reveals that it is associated with an innovative model, a fresh business model which traditional banking facilities or specific firms can adopt, or the most recent software tool used in a start-up, defining a robust illustrative currently in the financial sector [2]. As such, the attention of this type of definition looks at the impact of FinTech within banks as well as other financial institutions. It's also worth noting that FinTech encompasses software assortment advances employed by both the current institutions as well as newcomers, as well as those currently being updated.

Digital transformation has a lot of promise for the banking industry. In terms of customer acquisition, retention, and revenue generation, financial institutions will profit from digitization. As competition has increased and consumer loyalty has dwindled, client relations management has become incredibly advantageous for banks. To keep existing customers, acquire new ones, build real loyalty, and optimize client

lifetime value, banks must earn the highest level of trust possible. Continuously, digital technology will aid banks in gaining a better understanding of their customers and targeting them with tailored goods and communications. The rise of Latvian banks has been influenced by financial technology.

Following the crisis, authorities sought to industrialize banks by implementing waves of laws, and as a result, banks took on a more purposeful design. The customer is now putting pressure on the manufacturer. In the digital era, banks have been obliged to incorporate financial technology business models. To fulfill the needs of both regulators and customers, it is imperative that banking institutions embrace digitization. The smartphone makes the primary device of choice for today's bank consumers. New banks are embracing digital-only business strategies and providing a complete range of financial services to its consumers through smartphone [3]. Customers prefer to use mobile and internet channels to reach their banks, and they prefer to pay for transactions using cards rather than cash. Users may access all of their balances at any time and from any location thanks to the digital experience. A smartphone app can offer guidance for creating wealth, patterns of expenditure, as well as strategies for saving funds.

**5. FINANCIAL TECHNOLOGY BUSINESS MODELS IN LATVIAN BANKING SECTOR**

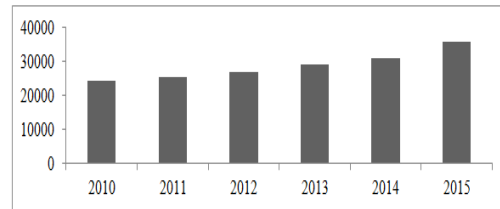
In Latvia, the digitization of bank business models has had a significant impact in recent years. Types of payment methods and instruments are one of the key sectors affected. Payment systems originated from the desire to make transactions more convenient. In Latvia, the most common payment methods were: The habits of bank customers are changing, and they are using debit and credit cards for payments more frequently each year. The Latvian Commercial Banks Association reported an increase in card payment activities of 21.2 percent in 2014, realizing 246.6 billion (LCA) [5]. In 2016, 296.6 billion payment card transactions were processed. Non-cash payments are gaining traction. The adoption of payment cards to buy products is rapidly increasing. Purchases attributed to card payments recorded a value improvement of 8.8 percent, reflecting 4.554 billion euros in 2016

The remaining customer service facilities are in the process of being transformed. Since 2011, a number of financial institutions have gradually ceased to comply with cash-based transactions, instead offering non-cash transfers or consulting services to their customers. Employees in the branches have stopped utilizing WEB kiosks and are now using tablets to master new internet banking and mobile banking approaches. Financial technology has had an impact on the financial sector, inclusive of branches are now relegated to being merely

another avenue for consumers to do business, with e-payment methods as well as instruments like internet banking, mobile banking, and mobile apps.

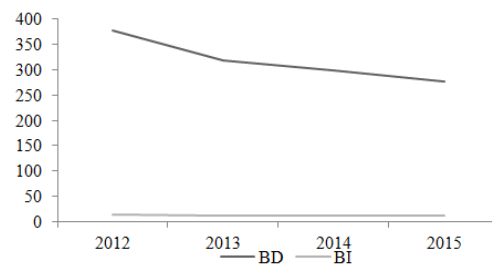
**6. ANALYSIS**

The Latvian banking sector responded to the changing conditions by implementing new digital instruments, the most notable of which is the conversion to an electronic banking system; online payment tools are on the increase, while traditional payment methods are on the wane. Electronic payments, being a generally accepted payment method, play an important part in today's economy. In 2014, transactions in both credit and debit cards totaled 246.6 billion. In two-year span, the purchases via card payments spiked by 20 percent to reach 296.6 billion dollars (Figure 1). Payments other than cash are becoming more common. The Latvian banking sector has drastically modified its payment and customer service techniques as a result of digitization of business models.



**Figure 1** The number of POS terminal payment card purchases between 2010 and 2015 in Latvia

Furthermore, Figure 2 below illustrates the quantity of cash transactions in Latvian banks has declined due to an increase in payment card purchases and the spread of POS terminals. BD is in charge of a larger amount of cash operations. The number of customer service centers in the BD sector has reduced as cash transactions have declined.



**Figure 2** Latvia Customer service centers between 2012 and 2015

Source: authors' computations from the LCA data

The rest of the customer service centers are in the process of being modernized. Several banks have gradually stopped working with cash over the previous three years, instead delivering non-cash transactions or consulting services to their consumers. Employees at the branches have switched from utilizing WEB kiosks to using tablets to master new technologies like digital banking and m-banking. They can offer services day and

night, all-year-round, and properly assess credit risks using data obtained from electronic transactions. As a result, digitization of business models leads to improved customer interactions, customer retention, and revenue growth.

If a firm does not create new business models or adapt to change, it risks becoming outdated, especially in a world where digital technology is highly depended. Despite the rapid advancements and changes in financial technology, a financial provider may create a digital business model that is more customer-centric, integrated, and predicts market trends while also meeting the fundamental requirements and wishes of both existing and new clients.

## 7. CONCLUSIONS

The rise of financial technology start-ups, non-traditional financial institutions, and non-banking actors in the banking sector has resulted in substantial structural changes in the industry, leading in a drop in the profitability of traditional banking services. The benefits of digitalizing company models are incalculable, as seen by the aforementioned information. Due to the incorporation of digital technology, financial operations are finished almost instantaneously as a result of digitization of business models, benefiting both the consumer and the bank. The use of big data provides the most precise assessment and knowledge of consumers, as well as a considerable decrease in credit risk, and a large

amount of bank income may be created via the use of business models that embrace digitization.

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