

## DIGITIZATION OF THE FINANCIAL-BANKING SYSTEM

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### **Abstract**

*The main purpose of this paper is to analyze the phenomenon of digitization in financial-banking institutions, and how entrepreneurs active in various fields of activity have turned to digitization to continue their activities despite the restrictions imposed by the Covid-19 pandemic. We can say that digitisation is the future, because it doesn't just help us in times of pandemic or other crisis situations, digitisation is the future of the banking industry, because consumers want to work with banks that can offer remote and quality services, and all categories of customers want to work with those companies that find innovative solutions and can provide them with services through technology. Bankers and entrepreneurs need to find a balance between legislation and market regulation, between risk management and consumers. We can say that the future belongs to digitised, standardised banks that understand and comply with legislation and regulation and that place a high value on innovation. We can talk about the era of digitisation as having been accelerated by the pandemic, which is why a lot of measures have been taken to make information as easy as possible, with all banks, as well as other companies and financial-banking institutions, strengthening their websites and solutions for remote access to their banking offer or banking products, such as applications (banking). A good number of banks already offer the possibility to get basic products directly from websites or apps: current account opening, debit cards, credit or shopping cards, personal loans and even deposits. A secure and risk-free digital solution is certME. With the certME solution, customers no longer need to be physically present at the counters and interact with their own staff for the identification processes specific to digital onboarding and Know Your Customer procedures, enjoying many advantages.*

**Keywords:** banking digitization, internet banking, financial-banking services, banking industry

**Classification JEL:** F65; F69;G21;G28; O31

### **1. Introduction and context of the study**

Given the context in which we find ourselves and the speed with which the use of digital technologies is evolving in the banking financial system, both nationally and internationally, we can talk about a very accelerated pace in the development of marketing tools and in the investment of new digital channels for the promotion of banking financial products. The development of technology and early digitisation have rapidly imposed changes in many industries, especially in the financial sector. In the wake of the pandemic, many institutions have begun to evolve, accelerating digital development through new ways that aim to simplify processes. Companies in the financial sector deserve more detailed attention, as digitisation has recently become an increasing priority for firms, institutions and individuals alike. One advantage that increased financial processes offer is the flexibility to carry out activities within the firm at any time the customer needs it, as well as better internal functioning.

Many banks are investing in high-performance, state-of-the-art databases and in more and more promotional and customer attraction tools. They come to the market like a magnet, with various product promotion packages to attract numerous customers.

The digitisation of the banking financial system has led to an increase in profits in recent years as a result of reduced operational costs, with banks being customer-focused and their needs supported by simplified, fast processes based on the use of state-of-the-art technology. We can say that banks provide a service to customers that facilitates the purchase of products and services, their ultimate goal being for example the purchase of a house, a car or consumer products. The urgent need to interact with customers in an accessible and professional way has led to the emergence of

software whose main purpose is to identify, in a database, the correct answer to the questions asked by customers to the banking institution. This is where chatbots can come into their own, where interaction with customers is focused on simple situations and issues with a high degree of repetitiveness, and then, as technology improves, they are able to provide unique and clear information on the personal situations faced by the financial services consumer.

From here we can say that a well developed software will be able to offer financial advice to a client, will be able to promote a banking product or several product packages, will be able to collect feedback and opinions on the banking services and products offered by the bank, will be able to offer commercial advantages, will be able to successfully manage the portfolios of current and potential clients of the banks.

All these elements may bring to the attention of investors, bank capital holders, the need for change, the need to adapt to new technologies, may even lead to the rise of artificial intelligence. The major challenges for banking financial systems have been and are being driven by new regulations related to legislation and technological innovation, the design of software and hardware applications as well as changes taking place in the economic environment.

Financial-banking institutions, like many entrepreneurs active in various fields, have turned to digitisation to be able to carry out their activities despite the restrictions imposed by the Covid-19 pandemic, many have chosen to work remotely with banks so looking to the future, the opportunity of a centralised, authorised network in which all participants are known and which allows direct processing of secure payments could help reduce costs and increase access to data.

Among the strongest trends that have been identified in the financial-banking sector, which are attracting the most investment, are: upgrading and replacing old systems, focusing more on technology capabilities and less on physical interactions, managing security, identity and privacy, and rethinking the workspace.

Institutions are looking to become much more agile in all business functions, but also to restructure the way they operate in order to increase efficiency. In order for the services offered by the financial-banking sector to meet all consumer requirements, investments will continue in online banking, digital platforms and other products that improve the relationship between the customer and the company.

Today's technology will drive the biggest change in the next few years, the bank of the future will be mostly digital. We can even say that emerging innovations, may be the most significant trend to affect banks in the next half decade, with banks having to develop or participate in digital ecosystems to stay at the heart of the industry.

All of these trends in the banking industry will become much more prevalent in partnerships with financial banking institutions. The responsibility of providers will take on new proportions, given technological progress as well as the expectations of customers who are increasingly agile, increasingly digital, as well as increasing profitability on the part of banks, reducing back-office operations costs, digital transformation, and customer engagement.

In the future, banking will be mostly digital, practically all tomorrow's customers will become 100% digital, banks will grant fully digital loans, robots and chatbots will be promoted.

As technology advances and becomes more accessible, the whole interaction with customers will be significantly improved and lending processes will become easier and easier.

Today's customers are increasingly looking for cross-border payments to be efficient, secure and cost-effective, which is why banks are innovating new flow solutions.

While domestic bank transfers between two banks (e.g. US banks) usually take less than 24 hours, international transactions can take three to five days. These delays in receiving payments can increase liquidity costs, borrowing costs and extend the working capital cycle, potentially limiting customers' ability to manage their money efficiently.

Another example is the National Bank of Hungary, which has provided banks with a platform to enable digitisation, the National Bank of Lithuania's strategy has regulated the adoption

of cloud and banking solutions. In Greece, videobanking has been regulated, allowing interaction between the bank representative and the customer via a platform. In recent years, we have also seen a positive trend from the National Bank of Romania. CEC Bank, the financial institution with the largest branch network in Romania, has adapted its processes to the new reality, speeding up and making various banking services available to customers through new technologies and digital platforms.

We can say that all customers want to work with those institutions that have new and innovative solutions for them, that keep a balance between traditional and online banking, and that are ready to provide more and more banking services through new technologies.

In Romania, certME is the first solution that allows the management, verification and guarantee of trusted digital identities, with obvious benefits for users who no longer waste time travelling to suppliers' offices and enjoy a 100% online digital experience accessing a wide range of products and services. With certME providers can pool their customer identification processes so that the digital onboarding process is completed once. In terms of payments, contactless cards are already seeing double-digit growth in Romania. In addition to these cards, new payment instruments have emerged such as wearables and more and more phones with NFC contactless technology, which have the potential to replace bank cards to a very large extent in the future.

We can say that in addition to banks, many financial institutions are increasingly offering very user-friendly, customer-oriented digital services, often at much lower costs than some banks, using new technologies not only at the customer interface but also internally to process transactions. Thus, Robotic Process Automation (RPA) allows repetitive and non-decisive tasks to be performed automatically, eliminating the need for human intervention, increasing speed of response and lowering operating costs. At the same time, BigData/Data Analytics are also special tools that can automatically identify products and services relevant to certain categories of customers and allow the acquisition of valuable information on a range of relationships and are, after all, a way of doing business.

Digital banks are distinguished by the extensive digitisation of services as well as all front and back-office processes. End-to-end digitisation is essential as banks compete against agile and disruptive business models. Suggested by the business model of emerging technology companies, digital banks are in a position to react quickly and efficiently to changes in customer preferences or regulatory requirements.

As more emerging markets try to compete in a growing pool of global competitors, fast-growing economies are constantly faced with issues of getting the right understanding of scalable markets. The future of the global economy depends on the well-being of sustainable economic growth and the expansion of banking systems.

The connection between digitisation and the economy has been best seen recently, specifically during the pandemic. In this regard, papers such as the one written by Fernández-Portillo et al [1] have followed the impact of innovation on the relationship between the digitization of companies and their economic and financial performance. The conclusion reached by the authors was that in order to reach a certain level of performance, not only digitisation is needed, but also a new strategy leading to improved company performance. Khera et al [3] showed that digital financial services have been a key driver of growth. Thus, for the developing countries studied, notes from the results indicated that digital financial inclusion is positively associated with increasing GDP per capita and accelerating economic growth, with their recommendations linked to the digitization of financial services.

The digitisation of financial and banking activity will generate co-benefits for national economies, reduce tax evasion, become a promoter of digitisation and provide examples of good practice in other economic and administrative areas. Numerous studies show a very high correlation between the share of electronic payments (internet/mobile banking, bank cards) in the economy and the reduction of the grey economy. This means that the banking community can provide know-how

to facilitate the implementation of digital services and cybersecurity, including through the development of applications/interfaces dedicated to e-government interactions, not least to increase the financial inclusion of the financial population.

## 2. Conclusions

As society evolves we can say that digitization is no longer just an option for bankers and financial banking institutions, but has become the newest norm in the financial services industry. The digital process manifests itself differently from one institution to another, and this represents a new stimulus for technological progress, both in banking and in other areas. Digitisation has been gaining ground at a rapid pace in the global and domestic banking sector, and it brings a very important benefit in reducing tax evasion. Internet banking will be the standard process in the coming years, seen as banks' method of contact with customers, allowing 24-hour access, as well as ATMs which are seen as the main means of contact with customers in the future, given reciprocity agreements on the diminishing importance of brand tradition and talk of a cashless society.

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The future will be one of digitised, standardised banks, bringing to market solutions that offer services without physical contact, that have a strong process base and place a high value on innovation.

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