

Digital Channels as Sustaining Innovation: An Analysis of the True Drivers of Transformation in Traditional Banking

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Abstract

This paper is put in the big background where traditional banks are facing low interest rates, tight rules, and competition from foreign banks after the world financial crisis; the aim is to look deep into the real reasons why banks develop digital ways and to make clear if these ways are really new or not. By looking at past research papers and real examples from banks in many countries, the study finds that digital channels are basically just gradual improvements instead of big changes that shake things up; the main goal of banks changing how they work is to make their old business steps better and to keep their role as money middlemen even stronger. The results show that pressure from outside rules and market competition, plus the need to control risks inside and to work more efficiently, all push this change together; this change makes banks better at bouncing back from big economic hits by changing how they do business and getting people and computers to work together, and this conclusion fixes the wrong idea that new tech always shakes things up, giving a theory base for bank managers to make plans and for rule makers to keep a balance between new things and safety.

Keywords

traditional banking, sustaining innovation, disruptive innovation, digital channel, transformation drivers

1. Introduction

After the 2008 world financial crisis, the big environment for traditional banks has been changed a lot; pressed by low interest, tight rules, and competition from foreign banks, banks have been made to switch from a way that puts products first to a way that puts customers first, and the replacement effect of financial companies that are not banks has taken away a big part of the old loan business [1]. Global banks, including those in Spain, are accelerating offline branch closures to cut costs [2]. Emerging market evidence confirms that digital technologies reduce reliance on physical branches and ATMs while expanding financial access [3].

But the basic way financial intermediaries work has not been changed by digital channels; Thakor said one reason fintech grows is to fix the long-time high costs of traditional financial intermediaries [4], and this shows

going digital is mostly pushed by wanting efficiency, not by completely changing bank jobs, an idea to be explained more in the theory part below.

Seeing the push for digital change as sustaining innovation helps understand traditional banks' survival; this fixes the wrong idea that new tech means big disruption, and gives help with plans to bank managers and rule makers.

2. Theoretical Background

2.1 Definition of Core Concepts

In the innovation theory of the banking industry, it is necessary to distinguish between two different innovation models. Sustaining innovation occurs within the existing value network and aims to serve mainstream customers by improving products or processes; while disruptive innovation enters from the periphery or the low-end market, providing simpler and cheaper solutions to meet neglected needs, ultimately completely reshaping industry rules [4]. Flexible and adaptable enterprises must fully utilize their existing business models while actively exploring new products and services to survive under such pressure [5]. Thakor said a key reason for fintech is to cut the costs that have been high for a long time for traditional financial intermediaries; seen from this angle, the digital changes in banking are more about making old services run better, not about replacing the intermediaries work itself [4]. Therefore, the sustaining innovation of traditional banks is merely to make greater use of technology in the old steps. For example, many papers talk about AI credit checks, blockchain payment, and open bank links as ways to make old tech systems and service steps better [6]. Official groups often say fintech means new money ideas driven by tech, and they believe it can bring new business ways, apps, or products [7]; but in the real work of banks, digital changes are often just seen as spending on tech or closing physical branches [4]. Thus, it is clear that digital channels have not created a completely new non-bank financial form outside of banks.

2.2 Mediating Mechanism of Maintenance Innovation and Data Empowerment

To make money from tech, banks cannot just buy machines; they must utilize the technology. To turn tech spending into real performance gains, digital tools like API links and auto systems must be reset by banks and put into their main work steps. Big data study is like a booster, and better analysis can bring more exact resource sharing and higher efficiency. Even now, generative AI uses, such as automatic reports and smart customer help, mainly aim to improve work efficiency and customer feeling, not to break core jobs [8].

2.3 Business Model Innovation and Technological Driving Forces

New tech like AI and blockchain act as outside pushers for this change; digital transformation is essentially business model innovation, meaning banks plan a new setup for how they make money and provide services [7]. Traditional banks find it difficult to undergo self-disruption because their existing capabilities are stronger and their processes are more rigid, which makes them resistant to radical innovation [5, 7].

3. Literature Review

3.1 Theoretical Analysis of Disruptive Innovation and Sustaining Innovation

Academic debate persists over whether digital channels constitute "disruptive innovation". True disruption requires a complete overhaul of the business model, not merely an upgrade of technical tools [5]. In the banking industry, achieving disruption requires completely getting rid of reliance on physical branches and instead relying on information technology and big data. Fintech credit still represents a small share of total credit. For example, in China in 2017, they were only 3% of loans to non-bank groups, and they mostly add to traditional services. Only large technology enterprises with extensive data resources possess the potential for a more thorough disruption [6]. Thakor said in a paper review that money tech includes new ideas in payment systems, person-to-person loans, and digital money, along with other deals without middlemen, and more study is needed to see how this hits traditional bank jobs [4]. The no-branch model based on telecommunications cooperation and agency networks has effectively expanded service coverage for vulnerable groups [3]. And

traditional banks are using open systems more and more to make customers feel better. After the pandemic, when physical branches were cut, customers saw this as a sign of digital new ideas, not a sign of getting worse; real studies show that when banks spend more on IT, customers are happier, and people usually see branch closings as digital new ideas, not decline [2]. Even though big tech companies and the platform trend press on the money made by traditional banks, making the main branch setup weaker, the key jobs of taking deposits and giving loans can still be kept in the new digital setup [6]. Non-bank and shadow banking capital groups offer assistance in under-served and early-stage markets. From 2006 to 2021, in 21 European countries, old banks remained the main intermediaries for formal commercial loans and new business startups. To a large extent, they helped each other rather than replaced one another [1]. Digital transformation mostly makes better the managing of what money they have and owe and the setting of risk prices for current groups, instead of making new types of non-bank financial forms [9]. Based on the above analysis, current research generally tends to view digital channels as sustaining innovations [6]. Their main job is to make traditional service steps better and keep the main customer group, not to shake up the basic business logic of banks as money middlemen. Of course, if the no-middleman new ideas brought by money tech, like person-to-person loans and digital money, will cause more basic changes in the long run still needs more watching.

3.2 Theoretical Framework and Channel Mechanisms of Banking Digital Transformation

Banks going digital has been moving forward slowly over the past few decades. From the early days of automated teller machines and telephone banking, to the modern era of mobile payment and blockchain technology, this is in line with the gradual and continuous nature of innovation.

Digital transformation covers three areas, making digital the main goal, the scale of money put in, and how well related work steps can adjust; if money is only spent on the scale without also changing inside steps and worker skills, short-term losses are often caused, and this has been seen in European and East African bank markets [2, 3]. Simple merging of channels is not enough to keep a lasting edge; banks must focus on being open and offering custom choices to give customers control, not just using automation to replace people. Digital ways should not only be dealing tools, but also a main method to improve customer feelings and meet hard needs; the true core for profit is bank service quality.

The main reason customers use digital channels comes from feeling the service is better, not from spending less; research has found that after the pandemic, when physical branches were cut, customers felt banks were more digital innovation, and more digital use goes up with happier customers, rather than with customers' withdrawal from banks [2].

Establishing partnerships with mobile network operators can help enhance the profitability and stability of banks, but the returns often show a lag. Especially for new businesses such as digital lending, due to the immature risk control mechanisms, the initial performance may be poor. The ease of mobile banking has cut customer need for branches and ATMs much, lowering each customer cost and letting more people get money help [3]; to use new tech without too much risk, banks are making more cooperate-compete links with tech firms via API links [8].

All these studies together show that digital ways are not used to disrupt banks, but to make things run better, to improve experiences, and to build inside skills, which help banks get stronger in their current work; while the above papers draw the conceptual boundaries and operational dimensions of digital ways, the real pushes and results of banks' digital change are best seen through real cases and number proof, as detailed in Section 4.

3.3 Resistance and Risks in Digital Transformation

Branch closures may lower satisfaction for customers requiring complex, face-to-face services; this shows that just using machines to replace people does not count as making services better [2], and spending on tech alone does not promise profit. Real studies in East African countries have shown that only when digital setup is joined with related steps and customer teaching can clear profit gains be seen [3]. One of the persistent challenges faced by emerging economies is the gap between the widespread availability of internet access and the development of digital literacy. If banks force the move to digital channels, this can cause a big block for using digital technology. Digitization also brings technical and performance pressures to employees, and

organizations need to provide support to alleviate the anxiety related to monitoring and to promote effective collaboration between humans and machines [10].

In the early time of pushing digital ways, like ATMs and mobile banking, banks often made mistakes in work and had more fraud risks, and this put pressure on their steadiness for a while. Digitization also made banks connect more, but if not handled right, it could make big risks spread worse [9].

Besides traditional credit risks, banks now face new threats, like online attacks and reputation harm. In an increasingly competitive environment, relying too much on outside technology providers can raise joining costs and lower profit edges.

4. Key Finding

4.1 External Pressures for Bank Transformation and Risk Resilience

Traditional banks are pushed to change by outside pressures, mostly from foreign competition and changes in how customers act; for example, a bank in East Africa joined with telecommunications operators, which made its deposits bigger and cut the cost of setting up branches [3], and this better work efficiency, along with customers preferring digital convenience after the pandemic, has forced banks to shut down physical outlets that are not efficient [2, 3].

Besides outside pressures, another main reason for banks going digital is using new tech to replace old ways, to make work run better and keep their edge over others; banks keep this edge by using digital ways, not by hurting the market that already exists. AI and big data have made running costs lower and service times shorter, and machine learning has cut credit approval from several days to just a few minutes [8]. Working with non-financial enterprises and using agent networks instead of expensive branches has boosted profit and steadiness; this move from relying on branches to relying on the network is handled by tech upgrades, overcoming old banks' limits in area coverage and worker costs [3].

Coping with sudden crises is another very practical push for bank transformation; digital payment setups have also shown strong bounce-back during big economic shocks, like the pandemic and world political crises, and they kept handling almost all transactions even under extreme pressure; this way matches the steady role of mobile money in East African banks, and the wider risk reduction effects of going digital [3, 9].

4.2 The Dual Impact of Fintech and the Evolution of Bank Profit Models

The impact of fintech on traditional banks is twofold. Large technology companies have exerted competitive pressure on the profit margins of banks' personal loans, while banks have optimized their processes and reduced costs by collaborating with fintech enterprises and leveraging API integration [8].

To address this situation, banks no longer conduct research and innovation in isolation but have begun to implement open innovation. They make a tie with fintech companies through API links that is both competitive and cooperative, and bring in new tech for their own use, and this process has also changed the competition scene of banks and given rise to many different business ways.

By doing a long look at 969 yearly reports from 57 regular banks in 33 countries, the study has identified three new ways of digital business, namely teamwork, highly personalized, and more funding channels; the uneven rules between rich and poor countries have made these types grow in different ways. In developed markets, banks often use the very personal model, and they give custom digital services with high value; in developing countries, the inclusion model is more common, and cheap digital ways let services reach people not served before [7].

4.3 Digitization Empowers Risk Prevention and Value Reconfiguration in Banks

A study of 238 Chinese commercial banks has shown that going digital can cut bank risks a lot; the risk reduction gotten from planning and using digital tools in the business part is stronger than that from steps taken only by managers [9].

Digital tools such as infrastructure and applications do not directly generate profits; instead, they can enhance employees' creativity and operational flexibility, thereby indirectly driving value creation [3].

Manual checks have been replaced by smart risk control systems in many banks, to cut mistakes made by people; the unchangeable nature of block-chain helps stop credit cheating, and this transformation also means different things to different types of banks. For small and medium banks with limited money, digital change works especially well to cut risks and fill gaps in risk control, and it is a main way for them to achieve a breakthrough [9].

4.4 Implementation Support for Personnel Organization and Technical Tools

How well digital change works is largely decided by “people” and the “organizational environment”. A survey of 468 bank employees revealed that during the transformation process, digital load and perceived digital monitoring would intensify technical pressure, and if not managed properly, it might damage performance. However, perceived organizational support can regulate this relationship. When banks provide training, clear communication, and management support, employees are more likely to transform digital pressure into performance improvement rather than resisting new tools [10]. This shows that the change from transaction handlers to data advisors is not automatically done by tech; it needs organizational support to help people and machines work together in the current setup, and this is the top level of ongoing innovation for workers.

Change is a planned new idea that focuses on people and machine teamwork and an open system. Workers are moving from handling deals to giving money advice using data, and this makes banks need to give training and help to reduce worry about tech and make workers more creative [10].

Blockchain's spread-out and unchangeable nature fixes the old problem of info not being open, setting a base for online trust; customer management systems and mobile work tools help workers sense customer needs better, improving customer satisfaction.

5. Discussion

This study systematically reviewed existing literature and multinational bank practice cases to demonstrate that the core driving force behind the digital transformation of traditional banks lies in sustaining innovation rather than disruptive innovation. This finding is like Thakor's words that a reason for money tech is to lower the high costs of old money ways, and it also is similar to Vives' view that the bank world is changing to a model that focuses on customers on a platform.

This study has certain limitations. First, this paper mainly relies on secondary literature and public cases, lacking first-hand interview data from bank management or technical implementers. Second, the long-term effects of digital change still need time to be tested. Last, rule differences in different countries and areas may change the way and result of the change; even though this study has looked at these things, a full cross-country comparison was not done by it.

Future studies can use long-time tracking or a mix of research ways to look deep into the long-term way digital tech affects bank results, and to compare the different strategies of different bank types in going digital. In addition, as new technologies such as generative artificial intelligence rapidly evolve, their deep impact on the business model of the banking industry also deserves continuous attention.

6. Conclusion

This article goes over research on old banks going digital and real examples from many countries, and concludes that the essence of digital channels is sustaining innovation rather than disruptive innovation. and the main aim is to make current work steps better, make work run smoother, and keep the bank's central job as a financial intermediary. Digital transformation is driven by external regulatory pressure, market competition, and inside risk control and efficiency needs; digital tools have made banks better at bouncing back from big economic hits, by changing business ways and getting people and computers to work together. Also, digitization can cut risks a lot, but it does not weaken the bank's money giving and risk handling jobs. The impact of fintech is two-sided. Large technology companies pose competition pressure on bank profits, while

banks can achieve process optimization through API cooperation. However, the technology tools themselves cannot automatically create value. Only when employees receive adequate organizational support can the digital pressure be transformed into a motivation for performance improvement. The wrong idea that tech progress is disruptive is corrected by this study; a theory base is given for bank managers to make plans, and a reference is also offered for rule makers to find a balance between pushing new things and keeping things steady.

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Conflicts of Interest

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