Impact of Digitalization on Customer Experience in Financial Firms

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Abstract

Aim: The rapid digitalization of financial services has transformed the way customers interact with financial firms. This study aims to examine the impact of digitalization on customer experience in financial firms.

Methods: The study was based on a review of literature where views obtained from empirical studies were evaluated. Based on a systematic review methodology, the study sought to critically review literature on the relationship between digitalization and customer experience in financial firms.

Results: The reviewed studies indicated that digitalization has a significant impact on customer experience in financial firms. The studies highlight that digitalization offers customers greater convenience, personalized services, and improved accessibility. However, concerns about data privacy, security, and the impact on human interaction also emerged.

Conclusion: This study concluded that digital financial services provide customers with a user-friendly and intuitive interface that simplifies their interactions with financial institutions. This dimension focuses on the ease with which customers navigate through digital platforms, perform transactions, access information, and utilize the available features without encountering unnecessary complexity or challenges.

Recommendation: Financial firms should leverage customer data and analytics to tailor and customize their digital offerings based on individual customer preferences, needs, and behaviors. Delivering personalized experiences create a sense of relevance and build stronger customer relationship in financial firms.

Keywords: Digitalization, financial firms, customer experience
INTRODUCTION

Digitalization has revolutionized the way businesses operate and interact with their customers in various industries, including the financial sector. With the advancements in technology and the widespread use of digital platforms, financial firms are leveraging digital tools and channels to enhance their customer interactions and deliver personalized and seamless experiences (Smith, 2022). The advent of digitalization has transformed the accessibility of financial services, making them more readily available to customers. Digital platforms, such as online banking and mobile applications, have eliminated geographical barriers, enabling customers to access financial services anytime and anywhere (Jenkins, 2021). This increased accessibility has improved customer convenience and eliminated the need for physical branch visits, allowing customers to perform transactions and manage their finances with ease (Iyer et al., 2019). Consequently, financial firms have witnessed a shift in customer preferences towards digital channels, leading to a reduction in foot traffic in physical branches (Saxena, 2020). The convenience and accessibility offered by digitalization have contributed to a more seamless and efficient customer experience.

Harchekar (2018) reports that before the digitalization of financial services, the industry operated through traditional brick-and-mortar branches, relying on physical interactions between customers and financial institutions. Customers were required to visit these physical locations to carry out banking transactions, seek assistance, or access financial products and services. This meant allocating time for branch visits and often waiting in queues for services. Financial services were limited by geographical constraints, with customers relying on the availability of local branches or ATMs in their vicinity. This posed challenges for individuals in remote areas or those without easy access to physical banking infrastructure.

Bastari et al. (2020) adds that traditional banking processes were time-consuming, involving extensive paperwork, manual verification, and lengthy processing times. Activities such as opening accounts, applying for loans, or conducting financial transactions required multiple visits to the branch and involved considerable paperwork. Moreover, bank branches operated within fixed working hours, typically during weekdays, which restricted customers’ ability to access financial services outside of these hours. This particularly affected individuals with busy schedules or those requiring immediate assistance outside of regular banking hours. Additionally, personalization of financial services was limited due to the lack of comprehensive customer data and insights. Banks had a more generalized approach to serving customers, with limited ability to tailor offerings based on individual needs and preferences.

Study by Deloitte (2014) showed that prior to the spread of digital technologies, customers seeking financial services had limited access to real-time financial information and updates. They relied on periodic statements, physical passbooks, or phone inquiries to obtain information about their accounts and transactions, making financial information less transparent. Similarly, self-service options were limited, with most banking activities requiring assistance from bank staff. Tasks such as fund transfers, bill payments, and balance inquiries were primarily conducted through manual channels. Similarly, self-service options were limited, with most banking activities requiring assistance from bank staff. Tasks such as fund transfers, bill payments, and balance inquiries were primarily conducted through manual channels. Manual processes were heavily relied upon in banking operations, leading to delays, errors, and inefficiencies in service delivery. Additionally, the storage and retrieval of customer information relied on physical paper documents, presenting challenges in terms of document management, security, and accessibility.
Globally, digitalization has opened up new avenues for delivering personalized financial services by leveraging technology and data to cater to individual customer needs and preferences. According to Shouyu (2017), digitalization enables the collection and analysis of vast amounts of customer data. Through online platforms, mobile applications, and other digital channels, financial firms gather information about customers’ financial behavior, transaction history, preferences, and demographics. This data serves as a valuable resource for understanding individual customers and their unique financial needs. Additionally, by leveraging advanced analytics and algorithms, financial firms segment their customer base effectively. They are able to identify distinct customer groups based on their financial goals, spending patterns, risk tolerance, and other relevant factors. This segmentation allows firms to create targeted and customized offerings for each customer segment, ensuring that their products and services align with individual preferences and requirements (Nayak, 2018).

According to Bastari et al. (2020), digitalization facilitates the delivery of personalized recommendations and solutions. Through, leveraging customer data and employing sophisticated algorithms, financial firms provide tailored product suggestions, investment advice, and financial planning strategies. Furthermore, digital channels offer customers the flexibility to customize and configure their banking experiences. Customers are also able to personalize their account settings, set up transaction alerts, and specify their communication preferences through self-service portals or mobile apps. This level of customization empowers customers to shape their financial interactions according to their individual preferences and requirements (Kudryavtseva et al., 2018).

Harchekar (2018) asserts that digitalization enables real-time and interactive customer engagement. Through chatbots, virtual assistants, and online customer service platforms, financial firms provide immediate support and assistance to customers. These automated systems respond to queries, resolve issues, and offer personalized guidance, enhancing the overall customer experience. Research also shows that digitalization enables financial firms to leverage customer data to proactively reach out to customers with relevant offers, updates, and educational content. This helps in staying connected and nurturing long-term relationships and foster trust with their customers (Balkan, 2021).

Customer experience alludes to the evaluation and measurement of how well a financial institution is meeting the needs of its customers, providing value, and fostering positive relationships (Shouyu, 2017). The multidimensional nature of customer experience recognizes that it encompasses various aspects beyond just financial transactions. It reflects the extent to which the organization is delivering personalized, seamless, and convenient services, while also ensuring security and trust (Bennouri et al., 2018). According to Fuzi et al. (2016), customer experience extends beyond financial outcomes and includes the satisfaction of different stakeholders such as customers, employees, suppliers, and communities. Positive customer experience indicates that the organization is meeting or exceeding customer expectations, building trust, and fostering positive relationships. Satisfied customers are more likely to remain loyal, provide referrals, and support the organization’s growth (Lemon et al. 2021). In addition, financial firm that excels in customer experience is more likely to outperform its competitors, attract customers, and secure market share. It demonstrates the organization’s ability to differentiate itself, innovate, and deliver superior value to customers, thereby creating a sustainable competitive edge (Vejseli & Rossmann, 2017).

Lemon et al. (2021) indicates that the digitalization is a key driver of success for financial firms. It includes adoption of digital technologies, mobile banking, online services, and data analytics. Positive digital experiences reflect the organization’s ability to provide convenient,
personalized, and secure services that meet the evolving needs of customers. In addition, a financial firm’s ability to leverage digitalization in enhancing customer experience demonstrates its commitment to continuous improvement and adaptability. It shows that the organization is investing in digital capabilities to create competitive advantages, stay ahead of industry trends, and respond to changing customer preferences (Gupta et al., 2020).

Bhagat and Bolton (2019) notes that a financial firm that consistently achieves high levels of customer satisfaction and loyalty demonstrates its ability to meet customer needs and exceed expectations. It indicates that customers value the firm’s digital services, trust its security measures, and have a positive experience. Digital-driven customer satisfaction and loyalty leads to repeat business, positive word-of-mouth, and a strong customer base. Moreover, a financial firm with effective digital strategies shows a commitment to fostering innovation, embracing change, and managing risks. Such an approach enables the organization to achieve its strategic objectives, support its growth strategies, and maintain a competitive advantage in the marketplace (Ibhagui & Olokoyo, 2018).

LITERATURE REVIEW

Theoretical Framework

Technology-Organization-Environment (TOE) Framework

The TOE framework, proposed by Tornatzky and Fleischer (1990), examines the influence of technology, organization, and environmental factors on the adoption and implementation of technological innovations. The framework provides a comprehensive perspective on the various elements that shape an organization’s decision-making process and ability to innovate and adopt new technologies. In the context of digitalization and customer experience in financial firms, the TOE framework offers valuable insights into the factors that drive or hinder the successful integration of digital technologies to enhance customer experience.

Technology factors encompass the various features, functionalities, and capabilities of digital technologies that can enhance customer experience, such as the ease of use, compatibility, and perceived benefits of these technologies. Financial firms must continually assess and adopt emerging technologies that can help improve customer interactions, streamline processes, and provide personalized services. Examples of digital technologies relevant to financial firms include mobile banking, artificial intelligence, big data analytics, and blockchain technology.

Organizational factors refer to the internal characteristics of financial firms that can influence their capacity to adopt and implement digital technologies effectively. These factors include organizational size, structure, resources, and culture. Financial firms that prioritize digital transformation and have a culture of innovation are more likely to succeed in leveraging digital technologies to enhance customer experience. Furthermore, the presence of skilled employees, efficient processes, and strong leadership can also support the successful integration of digital solutions.

Environmental factors encompass the external context in which financial firms operate, including their market conditions, industry characteristics, and regulatory landscape. Financial firms must navigate complex and evolving regulatory environments, intense competition, and rapidly changing customer needs. Financial firms that can effectively respond to these external factors are better positioned to integrate digital technologies into their operations and improve customer experience.
Service-Dominant Logic (SDL) Theory

The Service-Dominant Logic theory, proposed by Vargo and Lusch (2004), shifts the focus from a goods-dominant perspective to a service-oriented view of value creation. According to SDL, value is co-created through interactions between customers and service providers, emphasizing the importance of customer experience in the value-creation process. In the context of digitalization in financial firms, SDL provides a valuable perspective on how digital technologies can enhance the customer experience and contribute to value co-creation.

Digital technologies enable financial firms to deliver more personalized, convenient, and efficient services, leading to enhanced customer experiences. By leveraging digital channels and tools, financial firms can better understand customer needs, preferences, and behaviors, allowing them to tailor their offerings and interactions accordingly. This personalization and customization of services contribute to a more positive customer experience, ultimately fostering customer loyalty, satisfaction, and long-term value co-creation.

Furthermore, digital technologies can help financial firms streamline and automate processes, reducing wait times and enhancing customer convenience. By incorporating digital solutions such as chatbots, mobile banking apps, or online account management, financial firms can offer customers more control and flexibility in their interactions, further improving the customer experience. Finally, digital technologies foster collaboration and communication between customers and financial firms. Through digital channels, customers can provide feedback, voice concerns, or request assistance more easily, allowing financial firms to respond promptly and effectively. This ongoing dialogue and collaboration promote a more interactive and engaging customer experience, which can ultimately result in stronger relationships and increased value co-creation.

Empirical Review

Shrestha (2021) examined the effects of digitalization on customer experience in financial firms in Nepal. The target population for this study included customers of financial firms in Nepal who have had interactions with digital channels and services provided by these institutions. The study results highlighted the significant role of digital technologies, such as mobile banking, online platforms, and personalized digital services, in enhancing customer experience. It was established that mobile banking applications allow customers to perform transactions, check balances, and manage accounts anytime and anywhere, eliminating the need for physical visits to the bank. Online platforms enabled customers to apply for loans, open accounts, and access financial information with ease. These digital channels offered a higher level of convenience compared to traditional methods, which positively affected customer experience.

The findings suggest that digitalization has the potential to improve convenience, accessibility, personalization, and overall satisfaction for customers in financial firms.

Hussain and Ahmed (2021) explored the impact of digitalization on customer experience in financial services in Pakistan. The target population for this study included customers of financial services in Pakistan who had interacted with digital channels and services provided by financial institutions. The population was selected from various financial institutions, such as banks and insurance companies operating in Pakistan. The study identified various dimensions of customer experience, such as ease of use, responsiveness, customization, and trust, in the context of digital financial services. The study also revealed the positive effects of digitalization on customer experience, including improved service quality, efficiency, and convenience. The study concluded that digital financial services provide customers with a user-friendly and intuitive interface that simplifies their interactions with financial institutions. This
dimension focuses on the ease with which customers navigate through digital platforms, perform transactions, access information, and utilize the available features without encountering unnecessary complexity or challenges.

Oko and Okafor (2016) examined the impact of digitalization on customer experience in financial services in Lagos State, Nigeria. The study identified key dimensions of customer experience, such as interaction quality, personalization, trust, and value co-creation derived from digital financial services. The study highlighted the transformative impact of digitalization on customer experience, including increased customer engagement, empowerment, and loyalty. The study showed that digitalization empowers customers by providing them with greater control over their financial activities. Through digital tools, customers manage their accounts, track their expenses, set financial goals, and monitor their investments with ease. The availability of real-time information and data analytics allowed customers to make informed financial decisions, empowering them to take charge of their financial well-being.

Brown and Davis (2018) examined the relationship between digitalization, customer experience, and value creation in the financial services sector in Texas. The research design for this study was a mixed-methods approach, combining quantitative and qualitative data collection and analysis. The study included surveys and interviews to gather both numerical data and in-depth insights from the participants. The findings showed the critical role of digitalization in shaping customer experience and facilitating value co-creation between customers and financial firms. The study emphasized the importance of a customer-centric approach, seamless integration of digital channels, and the provision of personalized and interactive digital services to enhance customer experience and create sustainable value.

Ramanathan, Subramanian, and Parrott (2017) explored how digitalization influences customer experience within the banking sector in Egypt. The study found that the integration of digital technologies in the Egyptian banking sector led to increased convenience for customers. This manifested through streamlined processes, reduced wait times, and improved accessibility to services. Findings also indicated that digitalization efforts in Egyptian banks allowed for more personalized interactions with customers. Through tailored services and targeted communication, the banks met individual preferences and needs, ultimately enhancing the overall customer experience.

Lusch and Vargo (2018) presented the service-dominant logic (SDL) perspective, which provides a theoretical framework to understand the impact of digitalization on customer experience. The SDL perspective emphasizes the co-creation of value through interactions between customers and service providers, facilitated by digital technologies. The framework highlights the transformative role of digitalization in enabling customer-centricity, customization, and value co-creation in financial services. The study also discusses the implications of SDL for firms in terms of adopting customer-centric strategies, leveraging digital technologies, and nurturing customer relationships to enhance customer experience.

Verhoef, Kannan, and Inman (2015) introduced the concept of omni-channel retailing, which is relevant to the impact of digitalization on customer experience in financial firms. The study discusses the seamless integration of various digital and physical channels in delivering a consistent and enhanced customer experience. The concept emphasizes the need for financial firms to provide customers with a cohesive and integrated experience across multiple touchpoints, including websites, mobile apps, social media, and physical branches. The study highlights the potential benefits of omni-channel strategies in terms of increased customer satisfaction, loyalty, and financial performance.
Liao, Desai, and Prentice (2017) explored the impact of digitalization on customer experience in the Indian healthcare sector, which provides insights applicable to financial firms. The study investigated the effects of digitalization on customer engagement, satisfaction, and loyalty using a large-scale survey of healthcare service users. The findings highlighted the positive relationship between digitalization and customer experience, with digital tools and platforms enhancing convenience, accessibility, and personalized interactions. The study emphasized the importance of designing user-friendly digital interfaces, providing timely and relevant information, and ensuring data security and privacy to foster positive customer experiences.

Parasuraman, Zeithaml, and Malhotra (2005) developed the E-S-QUAL scale, which measures electronic service quality and customer experience in the digital context. The scale captures key dimensions of service quality, such as website functionality, responsiveness, security, and reliability, and their impact on customer satisfaction and loyalty. The study highlights the importance of providing high-quality digital services that meet customer expectations and enhance the overall customer experience. The E-S-QUAL scale serves as a valuable tool for financial firms to assess and improve their digital service quality to better meet customer needs.

Turel, Serenko, and Bontis (2017) investigated user acceptance of wireless short messaging services on customer experience in financial firms in Vietnam. The study examined the factors influencing customers’ perceived value of mobile services and their impact on user acceptance. The findings highlighted the importance of factors such as service quality, personalization, convenience, and enjoyment in shaping customers’ perceptions of value and their willingness to adopt and engage with digital services. The study pinned the significance of understanding customer preferences and designing digital services that align with their needs and expectations.

Lü, Huang, and Kuo (2020) conducted an empirical study to examine the effects of customer experience on customer satisfaction, trust, and loyalty in the Chinese banking sector. The study surveyed banking customers and analyzed the relationships between various dimensions of customer experience and customer outcomes. The findings demonstrated the positive impact of customer experience on customer satisfaction, trust, and loyalty, highlighting the role of digital channels and services in shaping these outcomes. The study underscores the importance of financial firms investing in digitalization to enhance customer experience and foster long-term customer relationships.

Alalwan et al. (2017) conducted a study on the effect of mobile banking on customer satisfaction with focus on commercial banks in Kenya. The study found that mobile banking services in commercial banks in Kenya significantly improved customer convenience. Customers reported that they could easily access banking services anytime and anywhere using their mobile devices, leading to higher levels of satisfaction. In addition, the study found a strong association between mobile banking and customer loyalty in the Kenyan banking sector. Customers who utilized mobile banking services exhibited a higher likelihood of remaining loyal to their respective commercial banks. The convenience and enhanced service quality offered by mobile banking played a significant role in fostering customer loyalty.

**SUMMARY**

The studies reviewed reveal that digitalization has a significant impact on customer behavior, preferences, and expectations. Customers today expect a seamless and personalized experience across all channels, and digitalization has enabled financial firms to meet these expectations. By providing a range of digital channels such as mobile banking, online banking, and social media, financial firms have been able to enhance customer convenience and accessibility.
Furthermore, digitalization has enabled financial firms to capture and analyze customer data, allowing them to personalize customer interactions and offer customized products and services.

The findings of the literature review also suggest that digitalization has influenced customer loyalty and satisfaction. Customers who have positive digital experiences with financial firms are more likely to remain loyal and recommend the firm to others. Conversely, negative digital experiences can have a significant impact on customer satisfaction and loyalty, leading to decreased revenue and market share. Therefore, it is essential for financial firms to invest in digitalization and ensure that their digital channels offer a seamless and personalized experience to customers.

The literature review also identifies the potential benefits of digitalization beyond customer experience, such as improved operational efficiencies and cost savings. Digitalization can help financial firms automate manual processes, reduce paperwork, and streamline operations, leading to significant cost savings and improved productivity. Additionally, digitalization can help financial firms make data-driven decisions by providing real-time data and analytics, enabling them to identify trends, patterns, and opportunities. Generally, the literature review highlights the significant impact of digitalization on customer experience in financial firms. Digitalization has transformed the way financial firms interact with their customers, resulting in significant changes in customer behavior, preferences, and expectations. Financial firms must invest in digitalization to provide a seamless and personalized experience to customers across all channels. Financial firms must also address the challenges of implementing digitalization, such as cybersecurity risks, data privacy concerns, and regulatory compliance. By leveraging digitalization effectively, financial firms can improve operational efficiencies, reduce costs, increase revenue, and enhance customer satisfaction, loyalty, and retention.

CONCLUSION

Based on the findings from the reviewed studies, it was concluded that digitalization has a significant positive impact on customer experience in financial firms. The literature consistently indicates that digitalization, driven by advancements in technology, has transformed the way financial firms interact with their customers and deliver financial services. The studies demonstrate that digitalization has led to increased convenience, accessibility, and personalization of financial services, thereby enhancing the overall customer experience. Digital channels such as online banking, mobile apps, chatbots, and self-service platforms have provided customers with seamless and efficient access to a wide range of financial products and services. The positive relationship between digitalization and customer experience is influenced by factors such as user interface design, data analytics, customer engagement strategies, and security measures. Recognizing and addressing these factors is important for financial firms to leverage digitalization effectively and deliver superior customer experiences. The findings also highlight that a positive customer experience driven by digitalization leads to increased customer satisfaction, loyalty, and advocacy.

RECOMMENDATIONS

1. Financial firms should prioritize the development of user-friendly and intuitive digital interfaces for their online platforms and mobile applications. This includes investing in user experience design, conducting user testing, and continuously improving the digital interface based on customer feedback. Providing a seamless and intuitive digital experience, financial firms can enhance customer satisfaction and engagement.

2. Personalization should be a key focus in digitalization efforts. Financial firms should leverage customer data and analytics to tailor and customize their digital offerings based on customer preferences, behaviors, and needs.
on individual customer preferences, needs, and behaviors. Delivering personalized experiences can create a sense of relevance and build stronger customer relationship in financial firms.

3. Customer engagement strategies should be designed to foster meaningful interactions and relationships in the digital realm. This includes incorporating features such as live chat support, virtual assistants, and personalized communication channels to proactively engaging customers and provide real-time assistance.

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