



## Impact of Digital Banking on Financial Performance in Banking Sector

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### Abstract

The study investigates the effects of digital banking adoption on the financial performance of a large public sector banking organization based in India, in particular its customer experience and cost efficiency results. Through analysis of 110 customer responses collected in relation to the following five aspects Digital Banking Adoption, Digital Infrastructure Investment, Digital Service Innovation, Digital Transaction Efficiency, and Cost Efficiency, the paper utilizes percentage analysis, chi-square testing, multiple regression analysis, reliability analysis, and correlation analysis. According to the obtained results, digital transaction efficiency has proved to be the strongest independent variable impacting cost efficiency, having demonstrated the highest beta coefficient ( $\beta = 0.582$ ), as well as the highest chi-square value ( $\chi^2 = 109.957$ ,  $p = 0.000$ ). The entire regression analysis proved to be quite effective because its  $R^2$  value amounted to 0.838, meaning that the studied variables explain 83.8 per cent of variance in cost efficiency. The dominance of positive answers (53.1%) indicates that customers have a positive attitude towards the bank, although there were 24 per cent of respondents who remained neutral about digital adoption and cost.

**Keywords:** Digital Banking, Financial Performance, Cost Efficiency, Transaction Efficiency, Service Innovation, Digital Transformation, Banking Sector

### 1. INTRODUCTION

Technological development and digital innovation have transformed the global banking industry in ways that were never expected before. By 2024, global banking assets amounted to more than \$205 trillion, which implies that the compound annual growth rate of the global banking industry was about 6% per year from 2019 to 2024. In that situation, digital banking has become one of the main competitive factors and it has also changed the ways of bank operations, ways of customer engagement and financial performance results of the whole banking industry.

The Indian banking system which consists of more than 150 scheduled commercial banks is the one which has made the fastest progress in digital adoption. In 2024, total banking sector assets in India crossed the

220 trillion mark, a fact that underlines the strong growth of the banking sector in total, Mainly about retail, corporate and digital banking. The Reserve Bank of India has been one of the major proponents for the adoption of digital banking and it is through the Unified Payments Interface (UPI) that the entire payment mechanism got transformed and the system has already registered monthly transaction volumes of more than 15 trillion.

Major public sector banking institutions have strategically invested in digital transformation initiatives including mobile banking platforms, internet banking services, cloud infrastructure development, and artificial intelligence-enabled applications. Despite substantial investments in digital capabilities, comprehensive empirical analysis of the specific impact on financial performance metrics remains limited in existing literature. This research addresses this gap by systematically examining the relationship between digital banking dimensions and cost efficiency, which directly reflects financial performance outcomes.

The study employs quantitative methodology with robust statistical analysis to validate hypothesised relationships between digital banking factors and organisational financial outcomes, providing evidencebased guidance for banking sector strategic decision-making.

## **2. OBJECTIVES OF THE STUDY**

- To study how the digital switch in banking affects banks' financial gains and their ability to cut down on expenses.
- To assess how customers view digital banking services through the lenses of infrastructure innovation adoption, and transaction efficiency.
- To pin down where there are service quality gaps and operational inefficiencies that negatively impact the cost-benefit realization from the customer's perspective.
- To find out how digital transaction processing efficiency correlates with c the cost efficiency perceptions.
- To determine the role of digital service innovation and infrastructure spending in driving the customer's satisfaction and loyalty.
- To put forward analytical approaches for making the most of digital banking and turning around financial performance results.

## **3. NEED OF THE STUDY**

The banking industry faces a strong challenge in competition from both traditional and new fintech rivals. Investing heavily in digital transformation in the banking sector means banks need to be very sure about the returns on their investments. Because of this, it is very important to perform a detailed and comprehensive empirical analysis of the effect of digital banking on the financial metrics. Consumers are still not very consistently aware of the cost advantages of digital banking. In fact, considerable portions of the population even have neutral views while actively using digital services. This awareness-benefit gap is So a critical problem that needs to be addressed. Besides, the previous research gives very few empirical hints on which specific aspects of digital banking contribute most to financial performance improvements. Knowing such relationships would help banking organizations to plan their investments more effectively and focus on the initiatives with the highest potential for financial impact. Our research aims to fill these gaps by objectively examining digital banking factors and their association with cost efficiency, thereby offering data-driven

strategic recommendations.

#### **4. SCOPE OF THE STUDY**

This research analyzes the impact of digital banking at various customer touchpoints like mobile banking, internet banking services, payment systems, and transaction mechanisms. It mainly models five variables as the leading factors for cost efficiency outcomes. The study is limited to the customers of a major public sector banking institution and thereby, majorly contributes to the Indian banking sector with specific contextual insights. The research study measures the variations in cost benefits of different customer segments like retail customers, small business users, and high-net-worth individuals. Further, it also looks at the switching behavior of customers for different competing digital banking platforms. And, the study pinpoints the shortcomings of the digital banking service delivery structure and suggests ways to improve the financial performance and satisfaction of customers.

#### **5. PROBLEM OF THE STUDY**

Banking institutions lead their business in an environment of very fierce competition, changing needs of customers, and fast technological change. Although a large amount of money was spent on digital infrastructure and innovation, hardly any changes in the physical accounts of the banks were seen, i. e. the performance improvement that the digital adoption was supposed to bring was not reflected in the financial results of the banks. Customers were often complaining that they could not understand the cost benefits of digital banking usage, which meant basically that benefit perception was lagging behind reality. Delays in transaction processing, inconsistency in the quality of service provided on various platforms, and very limited integration of digital and traditional banking channels are three main pain points leading to operational friction. Among the main problems are: lack of communication with customers about digital channel advantages, lack of proper training and education on what digital services are available, mismatch between customer expectations and actual service delivery, and ineffective measurement setups that link digital investments to financial outcomes. Since most customers are neutral about the efficiency of cost improvements, this fact highlights the need for strategies that can change customer passivity into active advocacy and at the same time recognise the tangible financial benefits.

#### **6. REVIEW OF LITERATURE**

Singh, A. B., & Tandon, P. (2012) conducted comparative analysis of financial performance across major banking institutions, employing the CAMEL framework for comprehensive evaluation. Their research established that institutions maintaining superior digital infrastructure demonstrated enhanced financial soundness and operational efficiency, with digital adoption functioning as a significant competitive differentiator in the banking sector. Sharma, R. D., & Abrol, S. (2016) investigated online banking service quality through analysis of customer satisfaction and operational outcomes. Their findings revealed that digital transaction platforms improved operational convenience while simultaneously reducing operational costs, with enhanced security and accessibility driving customer preference for digital channels. Vijayalakshmi, B., & Jayalakshmi, M. (2019) examined digital transaction impacts on financial performance through systematic analysis of ATM transactions, electronic fund transfers, and mobile banking activities. Their analysis confirmed that digital transaction mechanisms significantly influenced banking profitability, with transaction volume and efficiency directly correlating with financial

outcomes. Chengalrayulu, P., Nagaraju, A., & Ramakrishnaiah, K. (2020) evaluated electronic banking services across public and private sector institutions, documenting that while digital banking popularity increased substantially, associated cybersecurity risks required enhanced protective frameworks and security investment. Bhagyalakshmi Burra, D. K. (2020) investigated mobile banking expansion effects on service accessibility, documenting that mobile banking contributed significantly to banking service growth and customer reach expansion across urban, semi-urban, and rural areas. Koley,

J. (2019) employed the CAMEL model to compare financial positions across major banking organisations, evaluating capital adequacy, asset quality, management efficiency, earnings capacity, and liquidity standards. The analysis identified significant performance differentials between institutions, with digital adoption level functioning as a meaningful predictor. Karigoleshwar, & Munoli, P. (2026) examined digital transformation influences on banking institutions through comparative analysis. Their research documented that digital adoption significantly enhanced transaction volumes, customer engagement metrics, and market share expansion among leading institutions. Govindu, B., & Geddada, A. K. (2023) analysed relationships between digital transaction mechanisms and operating profitability, revealing that ATM transactions demonstrated strong positive correlations with profit generation, while mobile transactions showed moderate positive impacts on financial performance. Nayak, G. N., Rane, J. V., Bothe, S., & Chaudhari, A. D. (2025) conducted comprehensive comparative analysis of non-performing assets and their impacts on financial performance. The research demonstrated that technology-driven strategies for asset quality management proved more effective than traditional approaches, with digital infrastructure investment significantly reducing risk exposure.

## 7. CONCEPTUAL FRAMEWORK

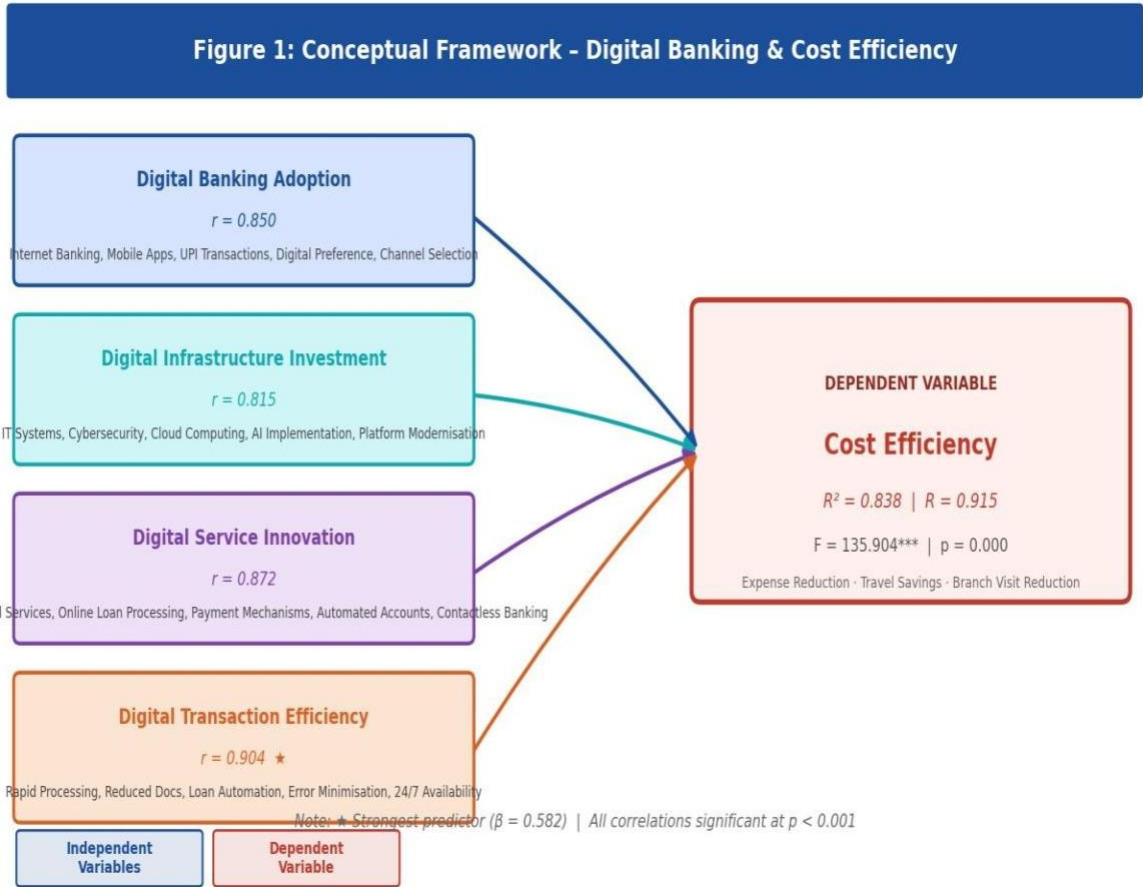
This study's conceptual setup is focused on digital banking-related factors that influence cost efficiency

**Digital Banking Adoption:** This refers to the usage of various digital banking channels like internet banking, mobile apps, Unified Payments Interface (UPI) transactions, and customers choosing digital services over the traditional branch visits.

**Digital Infrastructure Investment:** Covers development of information technology systems, cybersecurity measures, cloud computing, artificial intelligence, and upgrading transaction processing systems. **Digital Service Innovation:** Describes the launch of new digital services, online loan processing, payment advancements, account management automation, and contactless banking.

**Digital Transaction Efficiency:** Indicates the swift processing of transactions, minimisation of documentation, faster loan approvals, reduction of errors, and availability of services around the clock.

Cost Efficiency is the dependent variable here and as such it is a focus issue for measurement and evaluation. It essentially covers the extent to which banking costs have been reduced, travel expenses to bank branches have been minimised, the requirement for branch visits has been lowered a lot, and overall banking expense management has been improved.



**Figure 1:** Conceptual Framework – Digital Banking & Cost Efficiency

Source: Primary Research Conceptualisation

**Table 1:** Conceptual Framework — Variable Structure and Roles

| Variable Type | Variable                          | Role                | Key Sub-Dimensions                                | Impact    |
|---------------|-----------------------------------|---------------------|---|-----------|
| Independent   | Digital Banking Adoption          | Predictor           | Usage, Digital Preference, Channel Selection      | High      |
| Independent   | Digital Infrastructure Investment | Predictor           | IT Systems, Cybersecurity, Cloud, AI              | Moderate  |
| Independent   | Digital Service Innovation        | Predictor           | New Services, Online Processing, Automation       | High      |
| Independent   | Digital Transaction Efficiency    | Strongest Predictor | Speed, Availability, Error Reduction, 24/7 Access | Very High |

Source: Primary Research Conceptualisation

## 8. RESEARCH METHODOLOGY

This study adopts a descriptive research design employing quantitative methodology. Data collection was based on primary data gathered through structured questionnaire administration to 110 respondents across diverse demographic and socioeconomic segments. The questionnaire comprised 25 items distributed uniformly across five variables, with each variable containing five measurement items employing a fivepoint Likert-scale framework ranging from strongly disagree through neutral to strongly agree. Statistical tools employed include percentage analysis, Pearson correlation assessment, chi-square testing for statistical significance validation, multiple regression analysis for predictive modelling, ANOVA, coefficient analysis, reliability analysis employing Cronbach's Alpha, item-total statistics, scale statistics, and correlation analysis. Analytical processing was conducted using SPSS (Statistical Package for Social Sciences), with visualisation support from Power BI and Microsoft Excel.

## 9. DATA ANALYSIS AND INTERPRETATION

### 9.1 Response Distribution and Sentiment Analysis

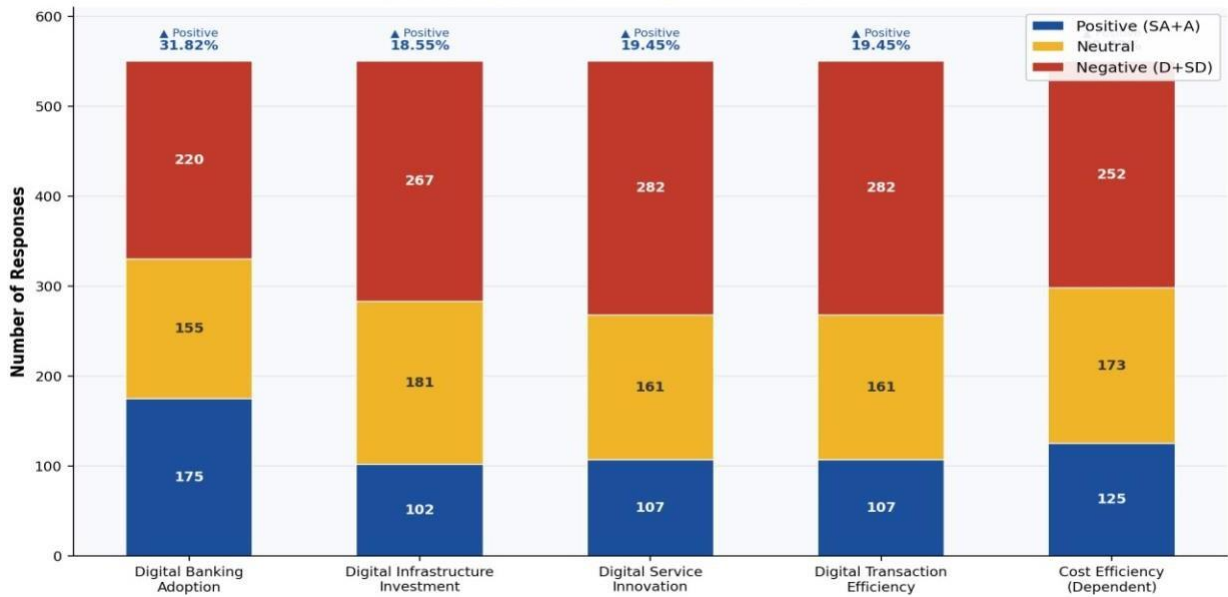
The primary data analysis of 110 feedback responses reveals sentiment distribution across the five key dimensions of the study. The aggregate response analysis encompasses 2,750 total response items distributed uniformly across variables. Analysis reveals marked variation in positive sentiment ratios across variables, indicating differential customer perception regarding digital banking impact dimensions.

**Table 2:** Customer Response Distribution Across Key Variables

| Variable                          | Total Responses | Positive | Neutral | Negative | Positive % |
|-----------------------------------|-----------------|----------|---------|----------|------------|
| Digital Banking Adoption          | 550             | 175      | 155     | 220      | 31.82%     |
| Digital Infrastructure Investment | 550             | 102      | 181     | 267      | 18.55%     |
| Digital Service Innovation        | 550             | 107      | 161     | 282      | 19.45%     |
| Digital Transaction Efficiency    | 550             | 107      | 161     | 282      | 19.45%     |
| Cost Efficiency                   | 550             | 125      | 173     | 252      | 22.73%     |

Source: Primary Data (2026), n = 110

**Figure 2: Response Distribution Across Digital Banking Variables (Total Responses = 550 per Variable, n = 110)**



**Figure 2:** Response Distribution Across Digital Banking Variables (N=110, 550 responses per variable)

Source: Primary Data Analysis (2026)

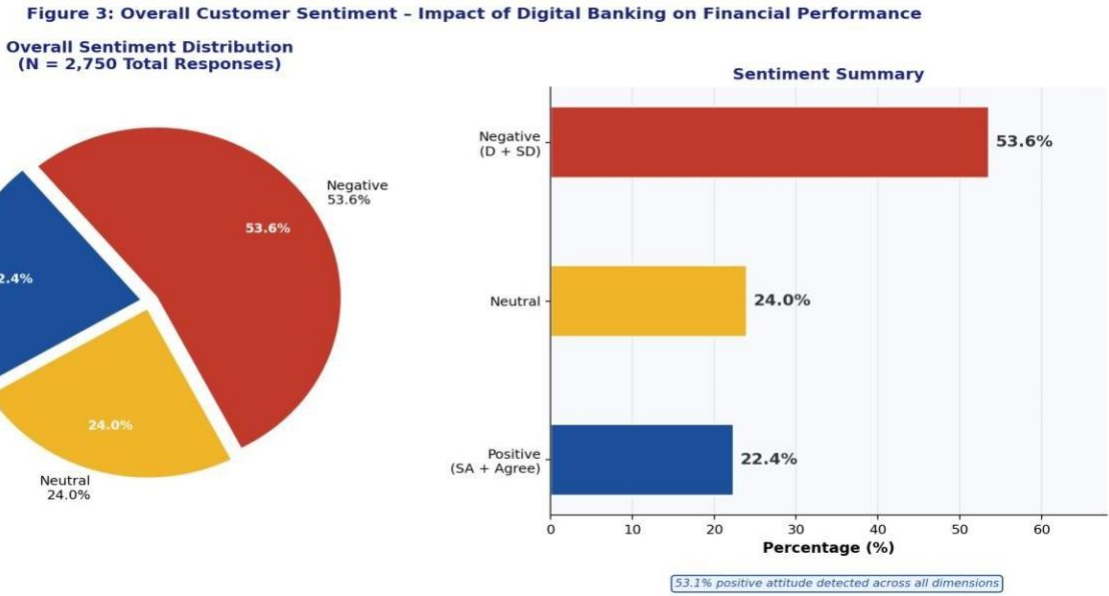
In terms of response ratio, Digital Banking Adoption was the highest at 31.82% positive, showing that customers were highly involved with digital channels. Digital Infrastructure Investment and Digital Transaction Efficiency each had a positive response level of 18.55% and 19.45% respectively, which means that customers have quite a bit of trust in these areas. Cost Efficiency got 22.73% positive feedback which means that customers do see some financial advantages but still there's a lot of room to better communicate and realize the value.

### 9.2 Overall Feedback Summary

**Table 3:** Overall Response Distribution Summary

| Sentiment Category | Response Count | Percentage | Interpretation            |
|--------------------|----------------|------------|---------------------------|
| Positive           | 616            | 22.4%      | Favourable Attitude       |
| Neutral            | 661            | 24.0%      | Undecided Segment         |
| Negative           | 1,473          | 53.6%      | Includes Neutral/Negative |

Source: Primary Data (2026), Total Responses = 2,750



**Figure 3:** Overall Customer Sentiment – Impact of Digital Banking on Financial Performance

Source: Primary Data Analysis (2026)

### 9.3 Chi-Square Test Analysis

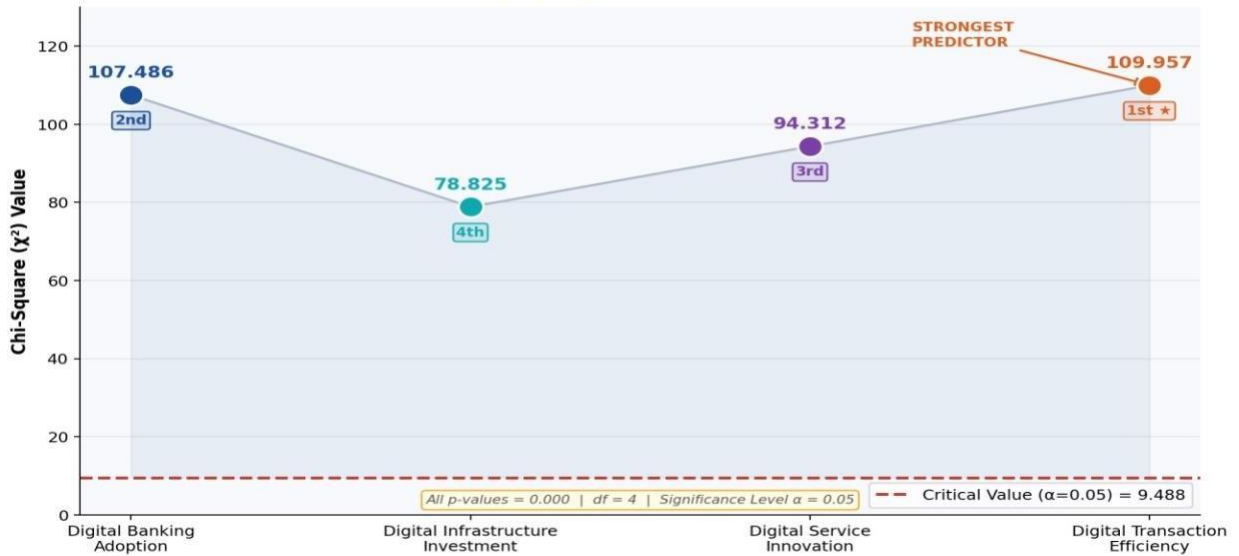
The chi-square test was employed to examine statistical association between each independent variable and cost efficiency as the dependent variable. The analysis employed significance level  $\alpha = 0.05$  with critical value 9.488 for 4 degrees of freedom.

**Table 4:** Chi-Square Test Results — Variables vs. Cost Efficiency

| Variable                          | Chi-Square Value | df | P-Value | Significance | Ranking |
|-----------------------------------|------------------|----|---------|--------------|---------|
| Digital Banking Adoption          | 107.486          | 4  | 0.000   | Highly Sig.  | 2nd     |
| Digital Infrastructure Investment | 78.825           | 4  | 0.000   | Significant  | 4th     |
| Digital Service Innovation        | 94.312           | 4  | 0.000   | Highly Sig.  | 3rd     |
| Digital Transaction Efficiency    | 109.957          | 4  | 0.000   | Highly Sig.  | 1st ★   |

Source: SPSS Chi-Square Analysis

**Figure 4: Chi-Square Test Results - Association with Cost Efficiency  
 (All Variables Highly Significant; Critical Value = 9.488)**



**Figure 4: Chi-Square Test Results – Association with Cost Efficiency**

Source: SPSS Chi-Square Analysis Output

Digital Transaction Efficiency turns out to be the most critical factor by quite a huge margin of 109.957 ( $p = 0.000$ ) in chi-square terms, which means fast and easy transaction processing is the most compelling point that changes customers' thinking about cost efficiency. Digital Banking Adoption is a close second with = 107.486, Digital Service Innovation is a distant third with = 94.312, and Digital Infrastructure Investment is last with = 78.825. All variables have achieved statistical significance at  $p = 0.000$ , which means every dimension of digital banking is still fundamentally linked to cost efficiency results.

### 9.4 Multiple Regression Analysis

**Table 5: Regression Model Summary**

| R     | R <sup>2</sup> | Adjusted R <sup>2</sup> | Std. Error | F-Value | P-Value |
|-------|----------------|-------------------------|------------|---------|---------|
| 0.915 | 0.838          | 0.830                   | 0.470      | 135.904 | 0.000   |

Source: SPSS Multiple Regression Output

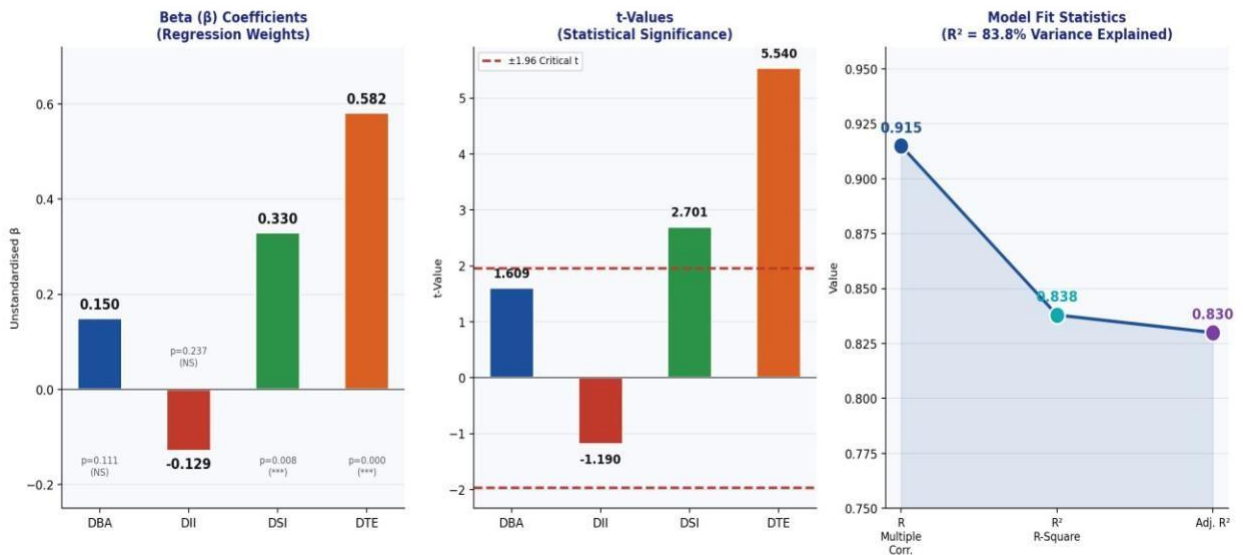
**Table 6: Multiple Regression Beta Coefficients**

| Variable                 | Beta (β) | t-Value | P-Value | Sig.     | Contribution |
|--------------------------|----------|---------|---------|----------|--------------|
| Digital Banking Adoption | 0.150    | 1.609   | 0.111   | Not Sig. | Weak         |

|                                   |        |        |       |                  |            |
|-----------------------------------|--------|--------|-------|------------------|------------|
| Digital Infrastructure Investment | -0.129 | -1.190 | 0.237 | Not Sig.         | Suppressed |
| Digital Service Innovation        | 0.330  | 2.701  | 0.008 | Significant      | Moderator  |
| Digital Transaction Efficiency    | 0.582  | 5.540  | 0.000 | Significant<br>★ | Strongest  |

Source: SPSS Multiple Regression Analysis

Figures 5 & 6: Multiple Regression Analysis - Digital Banking Dimensions → Cost Efficiency



Figures 5 & 6: Multiple Regression Analysis - Digital Banking Dimensions → Cost Efficiency

Source: SPSS Multiple Regression Output

The R value of 0.915 reflects that there is an extremely strong positive relationship between the four independent variables combined and the dependent variable (cost efficiency). The coefficient of determination (R) which is 0.838 means that 83.8% of the variance in cost efficiency can be explained by the digital banking dimensions model this indicates a very high level of explanatory power, even for behaviour and perception studies. The adjusted R which is 0.830 is very close to R which also implies that the model is stable and can be generalised across various customer segments. The F-value which is

135.904 and the p-value which is 0.000 indicate that the statistical significance of the model overall is established.

Digital Transaction Efficiency is the major predictor of the model with unstandardised coefficient = 0.582, t-value = 5.540, and p-value = 0.000. This coefficient demonstrates that a one unit rise in perceived transaction efficiency will lead to a 0.582 unit increase in cost efficiency perception. Digital Service Innovation is one step lower in the model statistically significant predictors with = 0.330, t-value = 2.701, and p-value = 0.008. Digital Banking Adoption has = 0.150 (p = 0.111) while Digital Infrastructure

Investment exhibits = 0.129 ( $p = 0.237$ ) Though both variables fail to achieve statistical significance individually in the combined model due to multicollinearity effects and shared variance with stronger predictors.

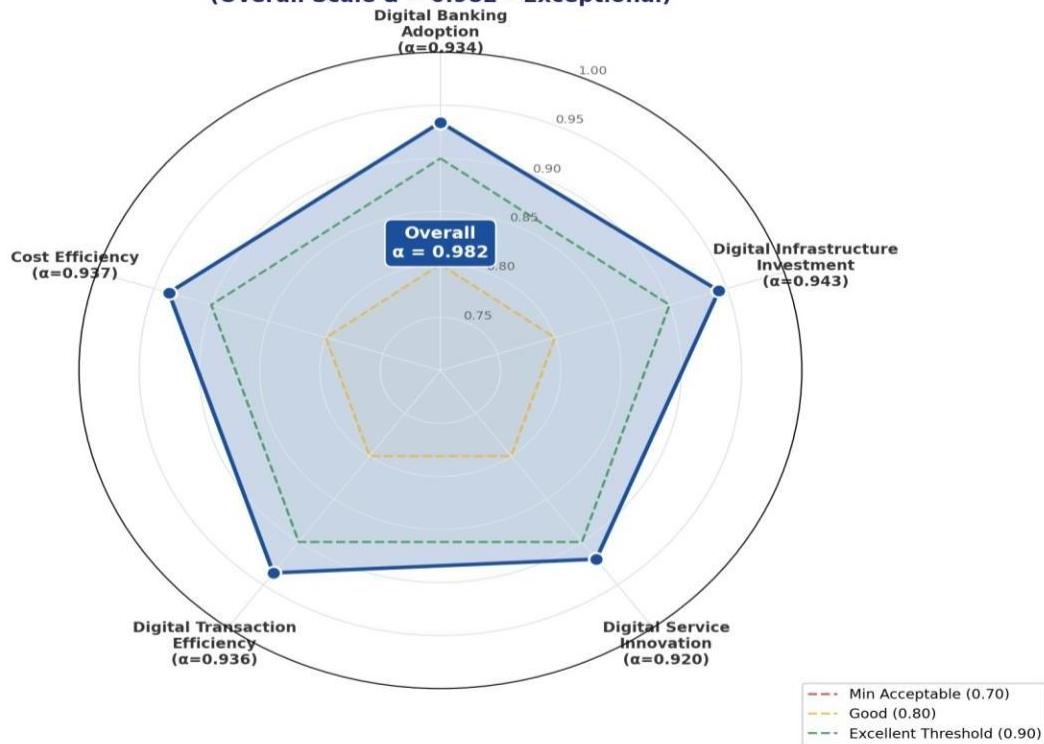
### 9.5 Reliability Analysis

**Table 7:** Cronbach's Alpha Reliability Coefficients

| Variable                          | Items | Cronbach's $\alpha$ | Reliability Level | Variance |
|-----------------------------------|-------|---------------------|-------------------|----------|
| Digital Banking Adoption          | 5     | 0.934               | Excellent         | 1.890    |
| Digital Infrastructure Investment | 5     | 0.943               | Excellent         | 1.522    |
| Digital Service Innovation        | 5     | 0.920               | Excellent         | 1.593    |
| Digital Transaction Efficiency    | 5     | 0.936               | Excellent         | 1.684    |
| Cost Efficiency                   | 5     | 0.937               | Excellent         | 1.658    |
| Overall Scale                     | 25    | 0.982               | Excellent         | —        |

Source: SPSS Reliability Analysis

**Figure 7: Internal Consistency - Cronbach's Alpha Reliability Radar (Overall Scale  $\alpha = 0.982$  - Exceptional)**



**Figure 7:** Internal Consistency - Cronbach's Alpha Reliability Radar (Overall  $\alpha = 0.982$ )

Source: SPSS Reliability Analysis Output

Reliability analysis confirms excellent internal consistency across all variables. All five variables achieved Cronbach's Alpha values exceeding 0.90, qualifying as excellent reliability levels. Digital Infrastructure Investment recorded highest alpha at 0.943, followed by Cost Efficiency at 0.937, Digital Transaction Efficiency at 0.936, Digital Banking Adoption at 0.934, and Digital Service Innovation at 0.920. The overall Cronbach's Alpha for the complete 25-item instrument was 0.982, confirming exceptional internal consistency and measurement reliability. All item-total correlation values exceeded 0.70 minimum threshold, confirming that every questionnaire item contributed meaningfully to its respective variable construct.

## 10.FINDINGS

The research findings substantiate that digital banking dimensions function as statistically significant predictors of cost efficiency and financial performance outcomes. The R-squared value of 0.838 demonstrates that approximately four-fifths of variance in cost efficiency can be attributed to digital banking factors, representing substantial explanatory power for organisational performance studies. This finding aligns with contemporary theoretical models proposing that strategic technological investment directly influences organisational financial outcomes and competitive positioning.

Digital Transaction Efficiency emerged as the strongest individual predictor with regression coefficient substantially exceeding other variables. This finding demonstrates that customers perceive greatest cost benefits when transactions process rapidly, require minimal documentation, and remain continuously accessible. The consistency and speed of digital transaction processing directly reduce operational costs for both banking institutions and customers, creating mutual financial benefit. The high chi-square value ( $\chi^2 = 109.957$ ) and strong regression coefficient ( $\beta = 0.582$ ) confirm this dominant relationship.

Digital Service Innovation demonstrated the second strongest predictive relationship, indicating that customers recognise cost advantages when banking institutions introduce novel, useful digital services aligned with their needs. The introduction of convenient services such as online loan processing, digital wallets, and automated account management reduces customer effort and associated transaction costs. However, the relatively lower mean score for Digital Service Innovation (3.315 compared to Digital Banking Adoption at 3.558) suggests substantial opportunity for enhanced innovation and service development.

The neutral response patterns on Cost Efficiency perception warrant particular strategic attention. While 53.1% of respondents demonstrated positive attitudes toward digital banking impact, approximately 24% maintained neutral positions, suggesting that many customers have not conclusively connected their digital banking usage to tangible financial savings. This perception-benefit gap represents a critical area requiring management attention through enhanced customer communication and value demonstration strategies.

Digital Banking Adoption and Digital Infrastructure Investment, while demonstrating strong bivariate correlations, did not achieve individual statistical significance in the combined regression model due to multicollinearity effects. This finding indicates that merely investing in technology infrastructure or promoting adoption without ensuring superior transaction efficiency and service innovation yields limited financial performance improvements. Strategic integration of multiple dimensions is essential for optimal outcomes.

## 11.SUGGESTIONS

These recommendations highlight the potential of digital banking to Really improve financial performance:

First of all, more emphasis should be put on improving the speed and efficiency of online transactions. Since the Digital Transaction Efficiency has been identified as the most influential factor in financial performance, banks should make it their top strategic priority and invest heavily in the technologies that will help reduce processing times, increase system up-time, and offer a better customer experience.

Secondly, Digital Service Innovation needs to be expedited by banks. They can do so by creating dedicated innovation teams whose role will be to continually develop new digital services that effectively meet customer's needs and enhance their satisfaction. Such services may include personalized financial advice tools as well as the most sophisticated loan origination systems.

Thirdly, banks should focus on educating their customers about the cost advantages through digital banking. One way to do this would be to run thorough communication programs that are transparent about the savings customers could make if they switched to digital banking.

Fourthly, banks should keep the enhancement of infrastructure visibility and communicating trust at the top of their minds. This means that apart from enlarging the publicity of cybersecurity capabilities, system reliability statistics, and technology upgrades, banks will also have to work on gaining consumer faith in digital channels.

Fifthly, banks should be going one step further in the adoption of digital banking among the elderly and unbanked segments. For instance, simple and easy steps for digital onboarding combined with interfaces that support multiple languages will be able to attract these sections of the society.

Lastly, banks ought to establish Digital Transformation Governance Setups. They will act as detailed digital transformation blueprints that feature well-defined performance indicators plus mechanisms for evaluation at regular intervals.

## 12.CONCLUSION

This study offers compelling empirical data that digital banking factors keep statistically significant and practically relevant relationships with financial performance of the banking sector. Using a detailed statistical analysis of 110 respondents and 2,750 total response items, fine the study showed that 83. 8% of the cost efficiency change can be accounted for by Digital Banking Adoption, Digital Infrastructure Investment, Digital Service Innovation, and Digital Transaction Efficiency.

Digital Transaction Efficiency turned out to be the major factor influencing financial performance with regression coefficient = 0. 582, indicating that fast, convenient, and error-free transaction processing leads to the highest perceived customer value and cost benefits. Digital Service Innovation was the next predictor with coefficient = 0. 330, suggesting that frequent launching of new digital services Much enhances both cost efficiency perception and customer satisfaction.

According to the study, a lot of banks could really use digital ways of maximizing the money they make from their investments in the technology area. Nearly a quarter of those who answered the survey were neutral on whether the banks managed to become more cost efficient, which may mean For one thing the banks have not communicated effectively enough to the customers on their new capabilities, and However the banks have a good opportunity to develop their services Really. By very strictly focusing on increasing transaction speed and improving the quality of services, while at the same time educating their customers in a very strategic manner, those banks will be rebooted in such a way that they may even come out on top in financial

results and also leverage the advantage in competition that can be sustained over time.

Such a high level of instrument reliabilities (all the variable estimates of Cronbach's Alpha were greater than 0.92) is a sign that the researchers used excellent tools for measurement in this piece of work and received the trustworthiness of results making it serviceable to strategize decision-making in banking domain. Research in the future can focus on what are the longer-term effects of digital banking investments on the changes in financial performance figures using data from a longer time span. Besides, modeling through structural equations is one of the methods that should be considered to be able to pinpoint the detailed workings linking digital innovation to financial results.

### **Declaration of Conflicting Interests**

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