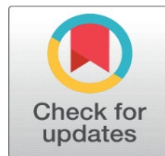
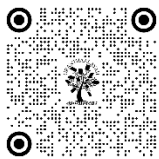


COMPARATIVE ANALYSIS OF ONLINE TRANSACTION BETWEEN PRIVATE AND PUBLIC SECTOR BANKS

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ABSTRACT

The comparative analysis of online transactions between private and public sector banks examines the differing operational models, customer engagement strategies, performance metrics, and regulatory impacts that characterize each sector's approach to digital banking. As the financial landscape has evolved due to technological advancements and shifting consumer preferences, understanding these distinctions has become increasingly vital. Private sector banks have leveraged their agility and innovative practices to enhance customer experience and capture market share, while public sector banks focus on broader outreach and equitable access to financial services, often at the expense of speed and personalization.

Notable differences between the two sectors manifest in their operational frameworks, where private banks typically adopt more flexible and tech-driven solutions compared to the more bureaucratic structures of public banks. This distinction influences customer engagement, with private banks emphasizing personalized services and advanced digital tools, attracting a significant portion of the market, particularly among younger demographics who prefer efficient online experiences. Research indicates that approximately 49.2% of consumers favor private banks for their primary transactions, citing superior service quality as a key factor in their choice.

Despite their strengths, both sectors face significant challenges and opportunities in the realm of online banking. Private Banks must navigate the competitive landscape shaped by fintech innovations and evolving consumer expectations, while public banks contend with regulatory constraints that can hinder rapid technological adaptation. Furthermore, the regulatory environment governing online banking impacts both sectors' operational effectiveness, with ongoing discussions about open banking highlighting the need for reforms that enhance consumer choice and innovation.

In abstract, the comparative analysis of online transactions between private and public sector banks underscores the importance of adapting to digital transformation trends, balancing regulatory compliance with the demand for customer-centric services, and recognizing the competitive dynamics that shape consumer preferences in the modern banking landscape.

1. INTRODUCTION

1.1. HISTORICAL CONTEXT

The evolution of online banking can be traced back to the significant advancements in technology over the past few decades. Initially, traditional banking systems were characterized by manual processes and face-to-face interactions. However, with the advent of the internet in the late 20th century, financial institutions began to explore digital avenues to enhance customer service and operational efficiency. The early 2000s marked the introduction of electronic banking, which enabled customers to perform transactions without the need to visit physical branches, thereby reshaping the banking landscape [1] [2].

In recent years, technological innovations such as artificial intelligence (AI), big data analytics, and cloud computing have played a pivotal role in driving the digital transformation of banking services. These advancements have allowed banks to offer a wide range of online services that enhance user experience, such as mobile check deposits, peer-to-peer payments, and budgeting tools [3] [4]. The integration of these technologies has fostered a competitive environment, particularly between private and public sector banks, as they strive to meet the evolving demands of digitally-savvy consumers [4].

The online banking sector has witnessed robust growth, propelled by a marked shift in consumer preferences toward digital-first solutions. This trend is especially evident among younger demographics who prioritize convenience and accessibility in their banking experiences [5] [6]. Furthermore, the rise of fintech companies has intensified competition within the banking industry, compelling traditional banks to adopt innovative digital tools and establish partnerships to remain relevant [4].

As a result, retail banking has emerged as a key segment in this digital revolution, with private sector banks leading the charge by leveraging technology to diversify their offerings and enhance customer engagement [4] [7]. The regulatory landscape has also evolved, with initiatives aimed at promoting transparency and safeguarding consumer data, which has bolstered trust in online banking platforms [6].

1.2. COMPARATIVE ANALYSIS

The comparative analysis of online transactions between private and public sector banks reveals notable differences in their operational models, customer engagement strategies, and overall effectiveness in meeting consumer demands.

1.3. OPERATIONAL MODELS

Private sector banks tend to adopt a more agile and innovative approach compared to their public sector counterparts. This agility allows them to integrate advanced technological solutions, such as AI-enabled platforms that personalize financial services based on customer needs, thereby enhancing user experience and operational efficiency [8] [4]. Conversely, public sector banks often follow more rigid structures due to regulatory requirements and governmental oversight, which can result in slower adaptation to market changes [9].

1.4. CUSTOMER ENGAGEMENT STRATEGIES

Customer engagement in private sector banks is primarily driven by a focus on personalization and service quality. They offer a diverse range of financial products, such as tailored investment options and premium banking services, which cater to a broad customer base [4] [9]. A study indicates that 49.2% of respondents prefer private sector banks for their primary financial transactions, attributing this preference to superior service quality and accessibility [10]. In contrast, public sector banks often emphasize equitable access to financial services, focusing on serving a larger demographic, including rural areas [9]. However, this broader outreach can sometimes lead to a compromise in service speed and customization.

1.5. PERFORMANCE METRICS

In terms of market performance, private sector banks accounted for 35.5% of the retail banking market in 2023, showcasing their dominance attributed to enhanced customer service and innovative banking technologies [4]. This performance is bolstered by a high demand for efficient and user-friendly banking solutions, particularly among younger consumers who are increasingly inclined towards digital banking [8]. Public sector banks, while also crucial for financial stability and economic development, tend to lag in capturing market share in the fast-evolving digital landscape due to their slower adaptation to technological innovations [9].

1.6. REGULATORY IMPACT

Regulatory frameworks significantly influence both sectors. Private Banks operate under the same regulatory environment but exhibit more flexibility in their operations. For instance, findings from the comparative analysis suggest

that the ongoing discussions in Canada regarding open banking regulatory designs align with the recommendations made by the Competition Bureau, emphasizing a need for adaptations that enhance consumer choice and innovation in banking [11]. Public sector banks, while crucial for maintaining economic stability, are often more constrained by governmental policies, which can hinder rapid innovation and responsiveness to consumer needs [12].

1.7. CUSTOMER EXPERIENCE

Customer experience (CX) in the banking sector, particularly in the context of online transactions, plays a crucial role in determining customer satisfaction and loyalty. CX encompasses how customers perceive and feel about every interaction with their bank, from account setup and transactions to customer support and the use of various digital services [13]. Each of these interactions, whether through a mobile banking app or an ATM, influences customers' overall perceptions and their likelihood of remaining with the bank.

1.8. PILLARS OF BANKING CX

The customer experience in banking is fundamentally built upon four pillars: Convenience, Personalization, Trust, and Speed. Convenience is particularly vital, as 89% of consumers cite ease of use as a key factor in their loyalty to a bank [13]. Customers today expect seamless access to banking services through digital platforms, which emphasizes the need for banks to optimize their online interfaces and transaction processes.

A positive CX not only fosters emotional connections between customers and their banks but also significantly reduces customer churn by increasing retention rates. Satisfied customers are more likely to recommend their bank to others, thereby enhancing the bank's reputation and potentially expanding its customer base [13]. In an increasingly digital landscape, where consumers have numerous banking options, providing personalized and efficient experiences is critical for maintaining a competitive edge.

1.9. EVOLUTION OF CUSTOMER EXPECTATIONS

The expectations of customers in the banking sector have transformed significantly, driven by advancements in technology and a shift towards digital-first banking solutions. According to recent studies, 72% of customers now prefer online or mobile banking over traditional face-to-face interactions [13]. This evolution necessitates that banks adapt their services to meet the rising demands for accessibility, security, and speed.

Research has shown that the customer journey involves multiple touch points, each impacting satisfaction levels. For instance, simplicity in account onboarding is crucial, as 63% of customers abandon applications that they find too complicated [13]. Furthermore, routine interactions—like utilizing banking apps for transactions—are increasingly preferred by consumers, with 71% indicating a preference for mobile apps for their banking needs [13].

1.10. IMPACT OF SERVICE QUALITY ON CUSTOMER SATISFACTION

Service quality dimensions such as responsiveness, reliability, security, and convenience have been shown to significantly influence customer satisfaction and loyalty. For example, a study revealed that 73.2% of customers reported being "more responsive" and "satisfied" with e-banking services [1]. These findings underscore the importance of high-quality service delivery in fostering long-term relationships with customers.

Moreover, the relationship between CX and customer loyalty is well established; customers who are satisfied with their banking experience are more likely to remain loyal and recommend the services to others. Notably, reliability emerged as a particularly strong predictor of customer satisfaction in e-banking environments [1] [14].

1.11. REGULATORY ENVIRONMENT

The regulatory environment governing online transactions within both private and public sector banks is complex and multifaceted, reflecting a combination of federal and state laws designed to ensure both financial stability and consumer protection. The current regulatory framework has struggled to adapt to the rapid evolution of payment service providers, resulting in inconsistencies and gaps in regulation across different entities. [15] Federal and state regulators

are actively seeking to standardize requirements, while maintaining traditional expectations around anti-money laundering (AML), consumer protection, dispute resolution, privacy, and the overall safety and soundness of financial services. [15]

1.12. REGULATORY FRAMEWORK OVERVIEW

The U.S. banking regulatory framework aims to mitigate systemic risks and promote market integrity while incorporating robust consumer protections. [16] Different regulatory requirements apply to various products and services, governed by agencies such as the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Consumer Financial Protection Bureau (CFPB). [16] Despite the overarching goal of ensuring financial stability, regulatory agencies are also tasked with fostering innovation and economic growth in the financial sector, which often requires a delicate balance between regulation and the encouragement of competition. [11]

1.13. IMPACT OF REGULATORY CHANGES

The application and interpretation of banking laws are largely delegated to administrative agencies, which means that the personnel involved in these agencies significantly influence regulatory policy—a phenomenon summarized by the adage "personnel is policy." [17] Recent shifts in regulatory approaches, such as the transition from a deregulatory stance under the previous administration to a more rigorous oversight model under the current administration, are expected to impact bank regulation and compliance requirements substantially in the years ahead. [17]

1.14. CONSUMER PROTECTION AND COMPLIANCE

In addition to maintaining financial stability, regulatory frameworks also prioritize consumer protection. This includes ensuring fair treatment of customers and protecting their sensitive data during online transactions. [18] Compliance with regulations such as the General Data Protection Regulation (GDPR) and various anti-money laundering laws is essential for digital banks to operate successfully. [19] [20] As digital banking continues to rise, maintaining trust through stringent security measures and transparent communication regarding fees and dispute resolution processes is critical for mitigating reputational risks. [21]

2. CHALLENGES AND OPPORTUNITIES

2.1. CHALLENGES IN ONLINE BANKING

The adoption of online banking services, while increasing, presents various challenges for both private and public sector banks. One significant hurdle is the perception of risk (PR) associated with online transactions. Research indicates that perceived risk can substantially impact customers' behavioral intentions to adopt internet banking, with trust acting as a crucial moderating factor in this dynamic [22] [9]. Many customers are hesitant to engage in online banking due to concerns over security and the potential for fraud, leading to a reluctance to transition from traditional banking methods.

Regulatory pressures also pose significant challenges. The financial services sector is subject to stringent regulations that require substantial investment in technology, compliance frameworks, and staff training [23]. Smaller institutions often find these compliance obligations particularly burdensome, which may limit their ability to innovate and keep pace with larger competitors [24]. Moreover, the rapid evolution of digital banking technology necessitates continuous updates to comply with changing regulations, adding layers of operational complexity [24].

2.2. OPPORTUNITIES FOR GROWTH

Despite these challenges, the evolution of online banking presents numerous opportunities for both private and public sector banks. The rapid development of technological innovations in financial services has facilitated a shift towards more efficient banking practices, allowing customers to conduct transactions without visiting physical branches [1]. This shift has created a level playing field within the banking industry, providing both sectors with opportunities to enhance customer satisfaction and loyalty through improved service delivery [1] [9].

Moreover, as customers increasingly seek convenience, banks that effectively integrate technological advancements into their service offerings can gain a competitive edge. For instance, e-Banking services, such as mobile banking and internet banking, are seen as technological innovations that meet the growing demand for accessible financial services [1]. Additionally, understanding and addressing the psychological aspects of consumer behavior, including perceived risk and trust, can lead to better adoption rates of online banking solutions [22] [9].

3. CONCLUSION

The comparative analysis of online transactions between private and public sector banks highlights key distinctions in agility, customer engagement, technological adoption, and regulatory adaptation. Private banks excel in innovation, personalization, and digital service quality, attracting tech-savvy users, while public banks prioritize financial inclusion and stability, often limited by bureaucratic constraints. Despite challenges like perceived risk and regulatory pressure, both sectors face vast opportunities to improve customer satisfaction through digital transformation. Ultimately, balancing innovation, trust, and accessibility is crucial for both sectors to thrive in the evolving online banking landscape.

CONFLICT OF INTERESTS

None.

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