



Comparative Analysis of Traditional and Digital Banking Services for Msme Development

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Abstract

Micro, Small and Medium Enterprises (MSMEs) play an important role in economic development through employment generation, entrepreneurship, production, innovation and regional development. Access to appropriate banking services is essential for the survival and expansion of these enterprises. Traditionally, MSMEs have depended on branch-based banking for deposits, withdrawals, working-capital finance, term loans and other financial services. However, rapid digitalisation has transformed the banking environment through mobile banking, internet banking, digital payments, online loan applications and technology-based credit assessment. The present study compares traditional and digital banking services in relation to MSME development. It examines the accessibility, convenience, processing speed, cost, satisfaction and developmental contribution of the two banking channels. The study adopts a descriptive and comparative research design and proposes primary data collection from 200 MSME owners and managers through a structured questionnaire. Percentage analysis, mean scores and comparative analysis are used to interpret the data. The findings indicate that digital banking performs strongly in terms of accessibility, transaction speed, convenience and lower transaction costs, whereas traditional banking remains important for personalized guidance, complex credit requirements and relationship-based financial decisions. The study concludes that digital banking should not completely replace traditional banking. Instead, an integrated banking model combining digital efficiency with personalized branch support can contribute more effectively to sustainable MSME development.

Keywords: MSMEs, Traditional Banking, Digital Banking, Bank Finance, Financial Inclusion, Digital Financial Services, MSME Development, Mobile Banking

Introduction

Micro, Small and Medium Enterprises constitute an important component of the economic structure of both developed and developing countries. MSMEs generate employment, encourage entrepreneurship, support industrial development and contribute to production, exports and regional economic activity. Despite their economic importance, many MSMEs face financial difficulties because of limited internal resources, irregular cash flows, inadequate collateral, information asymmetry and difficulties in obtaining formal credit. Banking institutions therefore occupy a significant position in the development of the MSME sector.

Traditional banking has historically been the major channel through which MSMEs obtain financial services. Under the traditional system, business owners generally visit bank branches to open accounts, deposit or withdraw money, submit loan applications, provide documents, discuss credit

requirements and interact directly with bank officials. Face-to-face communication creates personal relationships between bankers and MSME borrowers and can be particularly valuable when the financial needs of an enterprise are complex. Relationship banking also enables banks to obtain qualitative or "soft" information concerning the business, entrepreneur and local market.

Traditional banking, however, may involve considerable documentation, repeated branch visits, waiting periods and longer processing times. These factors can impose significant transaction and opportunity costs on smaller businesses whose owners are directly involved in daily operations. Limited banking hours and geographical distance from branches can create additional difficulties for enterprises operating in remote and semi-urban areas.

The development of digital technologies has substantially altered the delivery of banking services. Internet banking, mobile banking



applications, electronic fund transfers, QR-based payments, digital documentation, online loan applications and automated credit assessment have made it possible for MSMEs to perform many financial activities without physically visiting a bank branch. Digitalisation can therefore reduce transaction time and costs while expanding the geographical availability of formal financial services.

Research on Indian banks has also shown that digitalisation can improve the productivity of SME financing activities and assist financial institutions in verifying information used during SME credit evaluation. Research concerning digital financial services among Indian MSMEs similarly demonstrates growing interest in the knowledge, usage and preferences of enterprises regarding digital financial technologies.

Digital banking can be especially valuable for MSMEs because these enterprises frequently conduct high numbers of relatively small transactions and require continuous access to payments, account information and working capital. Digital transaction histories may also provide financial institutions with additional information for assessing the business activities and creditworthiness of enterprises. Nevertheless, digital banking has its own limitations. Inadequate digital literacy, cybersecurity concerns, online fraud, network problems, technical failures and lack of confidence in digital platforms may restrict adoption among some MSMEs. Moreover, business owners may still prefer personal interaction with bank officials when obtaining large loans, restructuring existing facilities or resolving complicated financial issues.

Therefore, the question is not simply whether digital banking is superior to traditional banking. It is necessary to determine the relative strengths and weaknesses of each system and examine how both can contribute to MSME development. The present study consequently provides a comparative analysis of traditional and digital banking services from the perspective of MSME users.

Literature Review

Berger and Udell (2006) examined the conceptual framework surrounding SME

finance and emphasized the importance of different lending technologies in providing finance to small businesses. Their analysis demonstrated that relationship lending can play an important role when firms lack sufficient transparent financial information. The study provides an important theoretical foundation for understanding the continued relevance of traditional relationship-based banking for MSMEs.

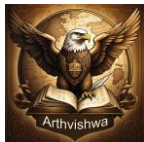
Beck, Demirgüç-Kunt and Maksimovic (2008) examined financing patterns of firms and demonstrated that smaller enterprises generally face greater financing constraints than larger firms. Their research highlighted differences in firms' access to external finance and reinforced the importance of appropriate banking mechanisms for supporting smaller enterprises.

Beck, Demirgüç-Kunt and Martínez Pería (2008) studied bank financing practices toward SMEs and examined the drivers, obstacles and lending models associated with SME finance. The research indicated that banks can play a significant role in SME financing but that information problems, risk and institutional conditions influence lending practices.

Berger and Black (2011) studied bank size, lending technologies and small-business finance. Their work showed that different banking technologies may serve different categories of small businesses. This suggests that no single method of banking is universally appropriate and that different MSMEs may benefit from different approaches to financial service delivery.

Gomber, Koch and Siering (2017) examined developments in digital finance and FinTech and discussed how technological innovation has transformed financial services. Their work demonstrated that digital technologies are changing traditional financial intermediation, customer interaction and the structure of financial-service delivery.

Ozili (2018) examined the impact of digital finance on financial inclusion and financial stability. The study observed that digital finance can expand access to formal financial services and reduce certain costs associated with conventional financial transactions. At



the same time, the research recognized risks associated with digital financial systems and emphasized the need for appropriate regulatory and technological infrastructure.

Gomber, Kauffman, Parker and Weber (2018) discussed the FinTech revolution and its implications for financial services. The study emphasized that digital innovations are reshaping financial products, business models and customer experiences. Such transformation has particular relevance to MSMEs because digital channels can reduce the cost and time involved in obtaining financial services.

Bazarbash (2019) examined the use of machine learning in credit-risk assessment and financial inclusion. The study explained how alternative information and advanced analytical techniques could potentially expand credit assessment beyond traditional approaches. Such methods can be particularly relevant for MSMEs with limited conventional credit histories.

Frost, Gambacorta, Huang, Shin and Zbinden (2019) studied the economics of FinTech and digital financial intermediation. Their research demonstrated how technology and data can transform the delivery and assessment of financial services and potentially reduce some of the information and transaction costs associated with conventional finance.

Sahi, Khalid, Abbas and Khatib (2021) examined factors influencing the adoption of FinTech services. Their research indicated that convenience, perceived usefulness, trust and user-related factors can influence the willingness to use technology-based financial services. These factors are relevant to MSME owners considering a transition from branch-based banking toward digital banking.

Gupta and Agarwal (2023) investigated the role of digital financial services among Indian MSMEs. The study focused on MSME awareness, usage and preferences concerning digital financial technologies and considered the role of demographic characteristics in digital financial-service adoption.

Hardik (2024) examined digitalisation, soft information and big-data use in SME credit evaluation by Indian banks. The research

found that banks were using digitalisation to improve the productivity of SME financing operations and that information technology could assist in verifying soft information relating to SMEs.

Verma, Das and Misra (2024) examined digital finance and MSME performance in India using World Bank Enterprise Survey data covering 9,024 Indian MSMEs. Their findings showed significant differences between digital and non-digital businesses and reported a positive association between digital financial variables and sales growth, although the effects were less pronounced for employment growth and labour productivity. The available literature therefore demonstrates that traditional banking continues to offer important relationship-based advantages, while digital banking can increase convenience, speed, information availability and financial access. However, direct comparison of MSME users' experiences across traditional and digital banking dimensions remains important. The present study addresses this requirement by comparatively evaluating both modes of banking in relation to MSME development.

Objectives of the Study

1. To compare the accessibility, convenience, cost and efficiency of traditional and digital banking services used by MSMEs.
2. To examine the level of MSME satisfaction with traditional and digital banking services, particularly in relation to transactions and access to finance.
3. To evaluate the comparative contribution of traditional and digital banking services to the growth and development of MSMEs.

Research Methodology

The present study adopts a descriptive, analytical and comparative research design. The descriptive component is used to identify the banking behaviour and service preferences of MSMEs, while the analytical component evaluates respondents' perceptions concerning the accessibility, speed, cost, convenience and usefulness of banking services. The comparative component is employed to determine the relative effectiveness of traditional and digital banking channels in supporting MSME development.

The study is primarily based on primary data



collected directly from owners, proprietors, partners, managers and authorized representatives of selected MSMEs. A structured questionnaire is used as the principal instrument for collecting the required information. The questionnaire contains questions relating to banking-service usage, frequency of branch visits, use of mobile and internet banking, digital payments, loan applications, processing time, transaction costs, accessibility, service quality, satisfaction and the perceived contribution of banking services to business development.

For the model analysis, a sample of 200 MSMEs is considered. The respondents represent micro, small and medium enterprises engaged in manufacturing, trading and service activities. A stratified sampling approach can be adopted so that enterprises of different sizes and sectors receive appropriate representation.

The questionnaire is divided into different sections covering enterprise characteristics, traditional banking usage, digital banking usage, comparative perceptions and business-development outcomes. Responses to attitudinal statements are measured using a five-point Likert scale, ranging from 1 = Strongly Disagree to 5 = Strongly Agree.

The collected data are classified, tabulated and analyzed using frequency distribution, percentages, weighted mean scores and comparative analysis. Higher mean values represent stronger respondent agreement with the respective statements. The comparative assessment concentrates on accessibility, convenience, processing speed, transaction cost, personalized support, overall satisfaction and contribution to MSME development.

Analysis of the Study

Table 1. Preferred Mode of Banking Services Among MSMEs

Banking Mode	Number of MSMEs	Percentage
Mainly Traditional Banking	42	21.0%
Mainly Digital Banking	96	48.0%
Combination of Both	62	31.0%
Total	200	100.0%

Analysis: Table 1 indicates that 48% of the surveyed MSMEs mainly prefer digital banking, while 21% primarily depend on traditional banking services. Another 31% use a combination of traditional and digital banking. The results indicate a clear movement toward digital banking among MSMEs. However, the

relatively large proportion using both systems shows that branch-based services have not become irrelevant. MSMEs appear to select their banking channel according to the nature and complexity of the financial transaction.

Table 2. Comparative Assessment of Traditional and Digital Banking Services

Banking Factor	Traditional Banking Mean Score	Digital Banking Mean Score	Better performing Mode
Accessibility	3.42	4.38	Digital
Convenience	3.31	4.45	Digital
Transaction Speed	3.18	4.51	Digital
Lower Transaction Cost	3.27	4.29	Digital
Personalized Assistance	4.46	3.35	Traditional
Ease of Record Tracking	3.52	4.37	Digital
Overall Mean	3.53	4.23	Digital

Analysis: Table 2 demonstrates that digital banking achieves higher mean scores for accessibility, convenience, transaction speed, cost and record tracking. Its overall mean score of 4.23 is substantially higher than the traditional banking score of 3.53. Traditional banking, however, records the highest score of 4.46 for personalized assistance. The findings demonstrate that digital banking is particularly suitable for routine and time-sensitive business transactions, whereas traditional banking provides greater value when MSMEs require personal guidance and direct communication with bank officials.

Table 3. Time Required to Access Major Banking Services

Banking Activity	Traditional Banking	Digital Banking	Comparative Result
Account Balance/Statement	15–30 minutes	1–5 minutes	Digital faster
Fund Transfer	20–40 minutes	2–10 minutes	Digital faster
Bill/Utility Payment	20–30 minutes	2–5 minutes	Digital faster
Submission of Loan Request	1–2 working days	Same day	Digital faster
Complex Loan Discussion	Same day/direct interaction	May require follow-up	Traditional useful

Analysis: Table 3 illustrates the time-saving advantages associated with digital banking. Routine financial activities such as checking account information, transferring funds and paying bills can generally be completed considerably faster through digital channels. The ability to perform transactions without travelling to a branch also reduces the



opportunity cost experienced by MSME owners. Traditional banking nevertheless remains useful for complex loan discussions because borrowers can directly communicate their requirements and clarify financial or documentation issues with banking personnel.

Table 4. Satisfaction of MSMEs with Traditional and Digital Banking Services

Level of Satisfaction	Traditional Banking	Traditional %	Digital Banking	Digital %
Highly Satisfied	36	18.0%	72	36.0%
Satisfied	76	38.0%	82	41.0%
Neutral	42	21.0%	24	12.0%
Dissatisfied	30	15.0%	16	8.0%
Highly Dissatisfied	16	8.0%	6	3.0%
Total	200	100.0%	200	100.0%

Analysis: Table 4 shows that 77% of respondents are either satisfied or highly satisfied with digital banking services compared with 56% for traditional banking. Only 11% express dissatisfaction or high dissatisfaction with digital banking, compared with 23% for traditional banking. The higher satisfaction with digital services can be associated with faster transactions, continuous accessibility and convenience. Nevertheless, the satisfaction recorded for traditional banking confirms that physical branches continue to provide meaningful services to MSME customers.

Table 5. Perceived Contribution of Banking Services to MSME Development

Development Indicator	Traditional Banking Mean Score	Digital Banking Mean Score	Difference
Improved Access to Financial Services	3.68	4.35	+0.67
Better Cash-Flow Management	3.57	4.41	+0.84
Faster Business Transactions	3.34	4.56	+1.22
Support for Business Expansion	3.91	4.18	+0.27
Improved Financial Record Keeping	3.62	4.39	+0.77
Better Customer/Supplier Payments	3.48	4.48	+1.00
Overall Mean	3.60	4.40	+0.80

Analysis: Table 5 demonstrates a higher perceived contribution of digital banking across all six MSME development indicators. The greatest difference is observed in faster business transactions, where digital banking records a mean of 4.56 compared with 3.34 for traditional banking. Digital banking also performs strongly in customer and supplier

payments, financial record keeping and cash-flow management.

The difference is relatively smaller for support for business expansion, where traditional banking records 3.91 compared with 4.18 for digital banking. This suggests that relationship-based traditional banking remains important for major financing and expansion decisions even when routine business banking is increasingly digital.

Taken together, the five tables indicate that digital banking provides substantial operational benefits to MSMEs through speed, accessibility, convenience and lower transaction effort. Traditional banking remains valuable for personalized assistance and complex financial decisions. Consequently, the evidence supports a complementary rather than completely substitutive relationship between the two modes of banking.

Overall Conclusion

The study provides a comparative assessment of traditional and digital banking services and their role in MSME development. The analysis indicates that the banking requirements of MSMEs are undergoing significant transformation as enterprises increasingly adopt technology-based financial services. Digital banking provides MSMEs with faster transactions, greater accessibility, improved convenience, easier financial record keeping and reduced dependence on physical bank branches.

The comparative findings show that digital banking achieves better overall performance in accessibility, convenience, transaction speed, cost effectiveness, cash-flow management and customer and supplier payments. Higher levels of satisfaction are also observed among users of digital banking services. These characteristics can contribute to MSME development by reducing the time and resources required for financial transactions and enabling enterprises to manage business funds more efficiently.

However, traditional banking continues to perform an important function. Face-to-face interaction with banking personnel provides personalized assistance and enables entrepreneurs to discuss complex financial



requirements. Such interaction can be particularly significant when enterprises apply for larger loans, restructure existing credit facilities or require guidance regarding documentation and financial products.

The comparative analysis therefore does not support the complete replacement of traditional banking by digital banking. Instead, the most appropriate approach for MSME development is a hybrid banking model combining the technological efficiency of digital platforms with the advisory and relationship-based strengths of traditional banking.

Banks should continue expanding secure and user-friendly digital services while maintaining effective human support for MSME customers. Attention should also be given to digital literacy, cybersecurity awareness, technical infrastructure and simplified digital credit procedures. Such an integrated approach can improve financial inclusion, strengthen access to banking services and provide MSMEs with a more efficient financial environment for sustainable growth.

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