


# Chapter 7

## The Marriage of Fintech and ESG in Investment Banks: Did COVID-19 Matchmake Them?

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### ABSTRACT

*I study the importance of Fintech investment on Environmental, Social, and Governance (ESG) performance score and on ESG risk rating (i.e., the bank's economic risk driven by ESG factors) of 342 investment banks, and whether the impact is greater or less during the Covid years. I find that Fintech investment does have a significant positive impact on ESG performance score. I also find that Fintech investment does have significant positive impact on governance (G) score, but insignificant impact on E score and S score. The findings indicate that Covid does have a significant impact on ESG risk rating, although Covid does not have significant impact on ESG performance, regardless of Fintech investment levels. There is a positive relationship between Fintech investment and ESG performance during both Covid and non-Covid years, with little variation in intensity. Additionally, the impact of Fintech investment on ESG performance is stronger for banks with smaller investment sizes. Lastly, Fintech investment has greatest positive effect on ESG performance when made through private equity.*

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## 1. INTRODUCTION

In recent years, Fintech (financial technology) has attracted attention for its influence on firm performance and shareholder value (Dranev et al., 2019; Putri et al., 2019; Mitra & Karathanasopoulos, 2020; Liu et al., 2021; Anindyastri et al., 2022). Global Fintech investment surged from USD 9 billion in 2010 to USD 209 billion in 2022 (Statista, 2023). As the largest Fintech festival worldwide (Mittal & Koh, 2024; Loo, 2019), the Singapore Fintech Festival expanded from 13,000 participants from 60 countries in 2016 to 66,000 from 150 countries in 2023. This phenomenon relies heavily on technologies such as big data (Wang et al., 2021), artificial intelligence (Ahmed et al., 2022), blockchain (Son & Jang, 2023), and the Internet of Things (Palmaccio et al., 2021), enabling network-based financial services. Fintech spans payments, clearing and settlement, credit, deposits, and capital-raising services. Scholars argue it can transform finance by increasing transparency, security, and efficiency, expanding product diversity, improving risk management, and facilitating real-time customer feedback (Kabulova et al., 2020; Li et al., 2024).

Financial institutions have increasingly invested in Fintech, viewing it as a strategic priority by 2019 (Kabulova et al., 2020). Fintech is recognized for enhancing service quality, reducing costs, increasing profits, promoting financial inclusion, and stabilizing markets (Moro-Visconti et al., 2020). Beyond finance, it supports broader economic and social transformations, including sustainable development and decentralized social connectivity. Concurrently, financial institutions have emphasized sustainability to achieve net-zero emissions and mitigate climate change risks (Alonso et al., 2019; Moro-Visconti et al., 2020). Financial services, including those offered via Fintech, increasingly integrate sustainability metrics and ESG principles, accelerated by COVID-19, which prompted reliance on digital financial solutions (Macchiavello et al., 2022).

While technology traditionally prioritizes productivity over environmental goals, Fintech demonstrates alignment with ESG objectives, fostering an inclusive, environmentally responsible financial system (Macchiavello et al., 2022). Since 2016, the United Nations has examined Fintech's role in sustainable development, and the G20 now includes sustainable digital finance in its 2030 agenda. Despite growing interest, empirical research linking Fintech and ESG performance within financial institutions remains limited, especially in investment banking. Existing studies focus largely on Fintech start-ups, conventional or commercial banks (Galeone et al., 2024; Mokhtar & Alam, 2023; Wan et al., 2023; Carlini et al., 2022; Salah et al., 2025; Costa-Climent & Martínez-Climent, 2018a; Costa-Climent & Martínez-Climent, 2018b; Chueca Vergara & Ferruz Agudo, 2021; Gomber et al., 2017; Románova & Kudinska, 2016).

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