

Chapter 3

Balancing Efficiency and Sustainability: The Effect of Fintech on Commercial Bank's Financial Performances

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ABSTRACT

Financial technologies explosive growth has changed the global banking landscape by transforming established commercial banking models and creating new avenues for expansion, effectiveness and financial inclusion. The chapter aims at addressing the impact of fintech on the bank's financial performances and its challenges in adopting it in the system. Despite of these, there raised a challenging risk and threats in way of handling such technical aspects of bank briefing various financial technologies and its evolution over the years also it discusses about its financial inclusion and provides a way for underserved areas to explore and to incorporate the habit of saving through wide range of fintech platforms like peer-peer lending, AI integrated applications etc., along with the various available opportunities for commercial banks. Adding to this, it discusses about the crucial role of fintech in policy and regulatory compliance of commercial banks as it leads to achieve long-term financial sustainability and customer loyalty by balancing efficiency, trust and transparency.

DOI: 10.4018/979-8-3373-6244-1.ch003

INTRODUCTION

In today's rapidly evolving financial system, technologies explosive growth has reshaped the commercial banks' way of handling their operations, customers and it is creating new avenues for expansion. Commercial banks, being a backbone of the financial system, operating in a highly competitive landscape, often require regulatory upgradation, innovation to offer more personalised financial products, thereby to keep up their market share and to build long-lasting customer relationships. In all these concepts, Fintech or Financial technology plays a predominant role – in general, it refers to the use of advanced digital solutions for boosting financial services, enhancing productivity and fostering new business models within the banking sector.

Fintech emerged as a powerful tool that is transforming traditional banking systems into a digital ecosystem, driven by customer-centric and cost-effective financial services. This redefined the operation of traditional banks, which had a lengthy operational process and limited access to financial services. With the advent of the digital banking system, commercial banks started to expand their area of operation across the rural sector to promote financial inclusion by leveraging fintech applications like peer-to-peer lending, mobile payment apps and other AI-integrated wealth management apps through an open banking initiative. In recent days, commercial banks have been attracting international business by integrating a decentralized financial (Defi) system to ease cross-border transactions, thereby generating higher revenues, paving a path for sound financial metrics. This in turn enhances the operational efficiency and helps in accelerating financial performances by way of opening new revenue strikes. On the other hand, the need for banks in this digital era goes just beyond their existence or maximizing profitability. It's an age where ESG concerns are more prevalent, and sustainability becomes a vital component in the banking industry for gaining long-term revenues.

Apart from reshaping the banking landscape, fintech as an essential role in striving for profitability, improved customer engagement, resulting in sound financial systems. It also has a significant impact on commercial banks' financial performances, depending on its size and stability. Fintech adoption has a direct and measurable impact on banks' financial performances, influencing both revenue generation and cost efficiency. Commercial banks are experiencing changes in key performance indicators like return on assets, return on equity, with rapid change in fintech. Fintech positively drives a larger value of total deposits and net profits in commercial banks (Baker et al., 2023b). An innovative tech-based commercial banks can improve operating income, CAR, and optimised profitability by reducing their risk-taking ability (Li et al., 2022). Digital risk control is a major factor in the development of fintech, as it greatly reduces the bank's credit risk. However, this effect is less significant in small and medium-sized commercial banks (Zhang et al., 2023)

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