Chapter 4

Non-Bank to Bank-Based FinTech Determinants and Banks' Financial Performance

Abid Ali
http://orcid.org/0009-0000-7988-7887
University of Hull. UK

Muhammad Zahid
http://orcid.org/0000-0001-5790-7998
Muscat University, Oman

Muhammad Naeem Shahid
http://orcid.org/0000-0001-7167-8386
School of Accounting and Finance, Faculty of Business and Law, Taylor's University, Malaysia

Sumaira Aslam
University of Derby, UK

ABSTRACT

In recent times, Fintech has been a revolutionary force that connects finance with innovative technologies. Fintech has introduced new business model innovations, innovative banking products/services, and processes, creating a landscape that has completely transformed the financial industry. FinTech-oriented banks work in a dynamic environment where FinTech firms compete with them. Moreover, the adoption of FinTech by banks is complex due to regulatory, governance, and operational environments. Therefore, it is important to understand the adoption of FinTech and its

DOI: 10.4018/979-8-3373-6244-1.ch004

impact on banks' financial performance. The chapter examines the determinants of FinTech adoption, ranging from non-banking to bank-based components of FinTech. The chapter offers nine components that can best measure FinTech adoption in banks. The chapter also addresses the banks' FinTech adoption and financial performance from the perspectives of regulatory, governance, and stability. It has been observed that FinTech adoption enhances a bank's financial performance.

BACKGROUND

Since the last decade, unparalleled advancements in FinTech have made it the talk of the town. The year 2021 ended with a USD 210 billion investment in the Global Fintech industry (KPMG, 2021). The Global Fintech Industry experienced a 667% growth from 2017 (with USD 31 billion in investment) to 2021, with an annual growth rate of 169%. FinTech offers various digitalised solutions, including online payment, mobile banking, AI-powered customer interfaces, Blockchain-oriented transactions, robo-advisory services, and peer-to-peer lending. FinTech is improving convenience, efficiency, and accessibility to financial services and credit facilities (Claessens et al., 2018; Carb et al., 2021). Moreover, FinTech has disrupted the financial industry via innovative solutions and challenged the conventional banking models (Romanova & Kudinska, 2016; Navaretti et al., 2017; Vives, 2017; Elsinger et al., 2018; Elsinger et al., 2018; Molnar, 2018; Merton & Thakor, 2019; Thakor, 2020; Vucinic, 2020; Cumming et al., 2022; Murinde et al., 2022). Many benefits and hazards are associated with the adoption of FinTech in banks. FinTech adoption in banks presents various opportunities, including cost reduction, improved efficiency, and enhanced customer experiences (Fiordelisi et al., 2020). However, as a dark side, FinTech adoption exposes Banks to many challenges like systemic risks, regulatory compliance, and cybersecurity threats. Moreover, FinTech innovations have a dynamic nature, which has raised potential concerns for the stability of the banking sector. Furthermore, FinTech adoption in banks is facing severe competition from FinTech startups.

Previous studies exhibit mixed evidence regarding whether FinTech enhances or substitutes for the credit access offered by conventional banks. Some studies suggest that Fintech offers credit and financial access comparable to that of conventional banks' financial services (Fuster et al., 2019), while other researchers find that traditional banks' financial services are more significant (Jagtiani & Lemieux, 2019; Tang, 2019). An efficient and well-functioning financial system significantly nurtures growth by increasing credit and effectively channels funds across the business community (Adrian & Liang, 2018; Ahamed et al., 2021; Cornelli et al., 2023; Hikida & Perry, 2020). However, there are insufficient studies on FinTech adoption

Related Content

Business Model Change Methodology: Applying New Technology in Organization: The Case of Mobile Technology in Learning Industry
Nastaran Hajiheydariand Payam Hanafizadeh (2013). *International Journal of Innovation in the Digital Economy (pp. 36-60).*
www.irma-international.org/article/business-model-change-methodology-applying-new-technology-in-organization/100649

The Influence of Military Leader Communication on Motivation in Portugal
Felipa Lopes dos Reisand Diogo Lisboa Esteves (2026). *Digital Transformation and Organizational Agility: Leadership, Strategy, and Emerging Technologies (pp. 331-346).*
www.irma-international.org/chapter/the-influence-of-military-leader-communication-on-motivation-in-portugal/409220

Internationalization Policies and Strategies From the Comparative Standpoint of Student Mobility in Slovenian and Turkish Higher Education
Maruša Hauptman Komotarand Tugba Elif Toprak-Yildiz (2022). *Digital Transformation and Internationalization Strategies in Organizations (pp. 170-197).*
www.irma-international.org/chapter/internationalization-policies-and-strategies-from-the-comparative-standpoint-of-student-mobility-in-slovenian-and-turkish-higher-education/290627

An Analysis of the Factors Influencing the Adoption of Online Shopping
Ali Tarhini, Ali Abdallah Alalwan, Nabeel Al-Qirim, Raed Algharabatand Ra'ed Masa'deh (2018). *International Journal of Technology Diffusion (pp. 68-87).*
www.irma-international.org/article/an-analysis-of-the-factors-influencing-the-adoption-of-online-shopping/204918

Coworking Spaces and the Transcendence of Social Innovation Knowledge in the Smart Territory

Guillermo J. Larios-Hernandezand Alberto Borbolla-Albores (2021). *Research Anthology on Digital Transformation, Organizational Change, and the Impact of Remote Work (pp. 1100-1118).*

www.irma-international.org/chapter/coworking-spaces-and-the-transcendence-of-social-innovation-knowledge-in-the-smart-territory/270340