Universal Journal of Science and Technology
e-ISSN: 2962-9179
Vol. 3 No. 1 (March 2024)

Factors that influence banking performance: a narrative literature review

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Abstract

The research findings consistently indicate that the emergence of alternative digital credit, provided by FinTech and BigTech firms, has a significant and negative impact on the performance of the banking sector. This impact is observed in both developed and developing countries, leading to decreased bank returns, intermediation margins, and profitability. The negative effect is influenced by various factors, including the degree of stability and market power in the banking sector, the level of competition, and the extent of physical banking infrastructure. Additionally, the growth of digital lending is negatively correlated with banking credit, suggesting a potential substitution effect. The studies address endogeneity concerns and conduct robustness tests to confirm the findings, ensuring the reliability of the results. The implications of the research suggest that the banking industry may need to adapt its business models to compete in an increasingly digital environment, and policymakers should consider regulating new participants in the credit markets to ensure financial stability. These findings provide valuable insights into the impact of alternative digital credit on the banking industry's performance, highlighting the need for banks to adapt to the changing landscape of digital finance and the potential implications for financial stability.

Keywords: bank performance, electronic banking

I. Introduction

Since the beginning of the last century, world of business has seen dramatically developments in the areas of use of information technology and communication. These developments have contributed to the transformation in the performance of various economic sectors, including banking. Financial services industry has been affected by such transformation, which led to the emergence of modern concepts such as: efinance, e-money and e-banking. (1)

In previous decades, banks have provided a variety of savings accounts, debit and credit card services, as well as loans and investment plans. Throughout the recent years, the banking industry has evolved in its scope responding to the changing nature of its environment. It has now transformed into the online banking era, where banks nowadays are exploring new methods of delivering their offered services to their customers (Ghaziri, 1998). Due to this, banks are able to serve their customers better without having to further expand their branch offices. With the advent of globalization, the banking sector has improved its services in response to the increase in competitive pressure and demand for economic growth. (2)

A strong banking sector is important to every country to stimulate economic growth and to maintain financial stability for the whole financial system. Hence, information and technological revolution motivated banks to spend more on technology to maximize return and attracting more customers who will not accept less than above-average services. In addition, banks have changed to keep up with the information technology and communication developments. This change includes using the technology of computer and communications to replace manual and paper operations to electronic operations; electronic banking (e-banking) or internet banking is the commonly method adopted by banks (Salhi and Alipour, 2010).

I. METHOD

The review model chosen is a narrative review. Narrative review method aims to identify and summarize published articles beforehand, avoid duplication of research, and look for new fields of study not yet researched.

The flow of research carried out in writing a thesis with a narrative model The study starts from determining the topic, searching for literature based on that topic database of related articles, literature selection, data processing and conclusions. Like which is attached below.

II. RESULT AND DISCUSSION

the emergence of alternative digital credit, provided by FinTech and BigTech firms, has a significant and negative impact on bank performance. The negative effect is observed in both developed and developing countries, leading to a decrease in bank returns, intermediation margins, and profitability. The impact of alternative digital credit on bank performance is influenced by various factors, including the degree of stability and market power in the banking sector, the level of competition, and the extent of physical banking infrastructure. Additionally, the growth of digital lending is negatively correlated with banking credit, suggesting a potential substitution effect.

Furthermore, the studies address endogeneity concerns and conduct robustness tests to confirm the findings, ensuring the reliability of the results. The implications of the research suggest that the banking industry may need to adapt its business models to compete in an increasingly digital environment. Policymakers are also advised to consider regulating new participants in the credit markets to ensure financial stability.

In conclusion, the research provides valuable insights into the impact of alternative digital credit on the banking industry's performance, highlighting the need for banks to adapt to the changing landscape of digital finance and the potential implications for financial stability. These findings remain robust after controlling for endogeneity issues and after including alternative measures of alternative digital lending and bank performance, ensuring the reliability of the results. These methods are crucial in providing a comprehensive understanding of the impact of alternative digital credit on bank performance and contribute to addressing the gap in the literature regarding the effects of the emergence of digital lending on the banking industry.

III. CONCLUSION

The research findings consistently indicate that the emergence of alternative digital credit, provided by FinTech and BigTech firms, has a significant and negative impact on the performance of the banking sector. This impact is observed in both developed and developing countries, leading to decreased bank returns, intermediation margins, and profitability.

The negative effect is influenced by various factors, including the degree of stability and market power in the banking sector, the level of competition, and the extent of physical banking infrastructure. Additionally, the growth of digital lending is negatively correlated with banking credit, suggesting a potential substitution effect.

The studies address endogeneity concerns and conduct robustness tests to confirm the findings, ensuring the reliability of the results. The implications of the research suggest that the banking industry may need to adapt its business models to compete in an increasingly digital environment, and policymakers should consider regulating new participants in the credit markets to ensure financial stability.

These findings provide valuable insights into the impact of alternative digital credit on the banking industry's performance, highlighting the need for banks to adapt to the changing landscape of digital finance and the potential implications for financial stability.

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