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The Effect of Financial Innovations on Bank Performance: Evidence from Commercial Banks of Sri Lanka

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Abstract

This study aims to investigate the impact of financial innovations on the performance of commercial banks in Sri Lanka. Automated Teller Machines (ATM), mobile banking, internet banking, and debit cards were used as proxies to measure financial innovations. The bank performance is measured by return on assets and return on equity. Bank size and economic growth of the country were considered as control variables. The relation between financial innovations and bank performance was estimated using a pooled regression model on an unbalanced panel data set with 110 observations of 11 licensed commercial banks over the period 2010-2019. All the proxies for financial innovations show significant effects on the bank performance. However, the effects are not uniform across performance measures. We find that ATMs, internet banking, and debit cards are significantly positively related and mobile banking is negatively related with ROA. Further, internet banking has a significant positive impact on ROE, while ATMs and mobile banking show a negative relationship. These findings show the important role of financial innovations on financial performance of banks and add to the existing literature.

Keywords: *Financial innovations, Bank performance, Sri Lanka, Commercial banks*