# Impact of Financial Technology (FINTECH) in Profitability of Listed Deposit Money Banks in Nigeria

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*Abstract*
*In order to investigate the relationship between financial technology (FINTECH) and listed deposit money banks in Nigeria, this study used an ex-post facto research design, utilising annual reports and accounts of listed deposit money banks on the Nigerian Stock Exchange (NSE) as well as secondary data obtained from the Central Bank of Nigeria Bullentin for the independent variables. Profitability, as determined by Return on Assets, was taken from the audited financial reports of five listed deposit money banks out of eleven banks quoted on the Nigerian Exchange Group, with the five listed deposit money banks chosen through judgemental sampling techniques over a ten-year period (2010-2019). Among the banks are Zenith Bank Plc, Unity Bank Plc, Fidelity Bank Plc, United Bank for Africa Plc, and Wema Bank Plc. With SPSS 20 statistical software, the data are analysed using descriptive statistics, regression analysis, and correlation analysis. The outcome demonstrated that mobile pay and automated teller machines had a statistically negligible effect on the profitability of Nigeria's listed banks. The study suggests that banks concentrate on developing and enhancing their mobile payment services because there is room for growth in this market based on its results. Banks might potentially enhance their profitability by drawing in more clients and increasing usage through the provision of more user-friendly interfaces, robust security, and new features.*

## SECTION ONE

### 1.0    Introduction

The banking industry worldwide has been profoundly impacted by the quick development of financial technology, or fin-tech, which has had a substantial impact on Nigerian deposit banks' profitability and operating dynamics. Peer-to-peer platforms and online marketplaces are examples of the sharing economy; other drivers of this expansion include favourable regulations (like consumer protection measures) and advances in information technology (like cloud computing and artificial intelligence) (Lee & Shin, 2018).

Nigeria, a nation in West Africa, is rapidly developing into a vibrant ecosystem that offers a setting for fin-tech startups to flourish and maybe grow into multimillion dollar companies. Nigeria, one of the main fin-tech investment hubs in Africa, has seen a spike in deal activity recently. There were fourteen agreements recorded by September 2016, compared to just two in 2010. Nigeria's fin-tech deal activity is expected to reach 86 agreements in 2022, a 1% rise from the previous year, based on activities in the first three quarters of 2022 (Popoola et al., 2023). These fin-tech partnerships have grown as a result of the expanding accessibility and use of cutting-edge products like digital banking and mobile money. As demonstrated by the exponential growth of mobile money operations—which went from an average monthly transaction value of US$5 million in 2011 to US$142.8 million in 2016 (KPMG, 2017) and a funding value of US$537 million in 2021 (Atoyebi, 2022)—the Nigerian economy, which is primarily cash-driven, has responded well to fin-tech opportunities. Some of Africa's biggest equity investments went to three Nigerian fintech companies by 2022. TeamApt raised US$50 million in equity financing in 2022, Flutterwave raised US$250 million, and Interswitch raised US$110 million (Ironsi, 2023). Steady growth in e-commerce and smartphone usage is responsible for fin-tech's rising popularity.

The advent of universal banking in 2001, which enabled banks to provide a broad range of financial services beyond the conventional deposit-taking and lending activities, aided in the growth of fin-tech in Nigeria. Additionally, the Central Bank of Nigeria (CBN) and the Bankers Committee launched the cashless policy in 2011 with the goal of removing conventional obstacles to financial inclusion like cost, distance, or documentation requirements by offering mobile payment services. Additionally, this policy made sure that financial services were accessible and safe in all regions of the nation—rural, semi-urban, and metropolitan (Itah & Emmanuel, 2014). Financial inclusion has greatly improved as a result of the policy change towards retail banking and the usage of e-banking channels.

For instance, from 21.6 percent in 2010 to 70% in 2020, the proportion of adult Nigerians with access to payment services climbed; similarly, the percentage with access to savings rose from 24.0 percent to 60% and the percentage with credit increased from 2 percent to 40% (CBN, n.d.). The use of electronic banking as a fin-tech solution has become increasingly popular worldwide and is growing quickly in Nigeria. It may be used as a strategic tool for business development as well as a delivery medium for banking services. In an increasingly competitive banking landscape, Ovia (2001) reports that an increasing number of banks are joining the market and utilising e-banking capabilities to provide improved services. The corporate sector has profited from the introduction of e-banking in addition to regular customers. The swift advancement and worldwide acclaim of electronic banking and its offerings have substantially bolstered its infiltration into Nigeria (Ovia, 2001). Fin-tech allows consumers to use their smartphones to pay bills, transfer money, and make fast payments. Financial inclusion has increased significantly as a result, especially for the unbanked people,

who may now conduct transactions easily even in the absence of a regular bank account. Furthermore, fin-tech lending platforms like Carbon, Fair-money, and Ren-money use technology to give loans to people and small enterprises in a timely and convenient manner.

Furthermore, digital insurance solutions that provide convenience and personalised coverage have been offered by insur-tech start-ups as AXA Mansard and Tangerine Life. Fintech, or financial technology, has drastically changed the financial services sector and presented opportunities as well as difficulties for Nigeria's listed deposit money banks. Traditional banking institutions are now under increased competitive pressure from fintech technologies including blockchain technology, mobile payment systems, and digital banking platforms (Arner, Barberis, & Buckley, 2016). Although these technologies improve client experiences and operational effectiveness, they also pose a challenge to incumbent banks' market share and profitability (Adeniran, 2021).

The task of balancing the cost of implementing new technologies with the requirement to retain profitability presents special difficulties for listed deposit money institutions, which are openly traded and accountable to the market (Adegboye & Ojo, 2019). Reduced fees and profit margins for these banks are frequently the outcome of the fierce competition from fintech companies. Furthermore, as noted by Okafor and Asogwa (2020), the requirement for significant investments in cybersecurity and technology may put a burden on available funds and affect final profitability.

Although fintech is becoming more and more influential, little empirical research has been done on how these technological advancements especially effect the profitability of Nigerian listed deposit money institutions. By analysing the effects of fin-tech on the Return on Assets of Nigerian listed deposit money banks, this study seeks to close this gap. The study's specific goal is to investigate how mobile pay and automated teller machines affect the return on assets of Nigeria's listed deposit money banks. This research should shed light on the tactical changes needed to maintain profitability in a financial environment that is changing quickly (Ojo, 2018). According to the study's goal, the following theories were developed to direct the investigation:

$H_{01}$:  Automated Teller Machine does not have significant impact on the Return on Assets of listed deposit money banks in Nigeria.

$H_{02}$:  Mobile Pay does not have significant impact on the Return on Assets of listed deposit money banks in Nigeria.

## SECTION TWO
## REVIEW OF RELATED LITERATURE

### 2.1    The Concept of FinTech

In order to create new financial products and services that can reach a wider range of entities, including corporate and individual customers, firms that base their financial services on sound technological platforms are known as fintech companies (Mlanga, 2019). FinTech has gained popularity because of the use of this technology by newly established companies seeking to disrupt the status quo in the asset management and money transfer industries by utilising cutting edge technological channels (Truong, 2016). One notable characteristic of fintech is its ability to maintain low transaction costs while guaranteeing market efficiency.

Moreover, FinTech was defined by Kim, Park, Choi, and Yeon (2015) in Erman (2017) as a platform that facilitates the nexus of technology and finance. In other words, a fusion of financial services delivery and information technology (Lee & Kim, 2015 in Erman, 2017). FinTech refers to innovations in the financial system that are made possible by technology and

have the potential to create new services, business models, products, procedures, and even institutions that encompass a broad range of financial innovations (IAIS, 2017). These goods and services, which cover everything from e-trading to crowdfunding to blockchain technology, are responsible for the obvious changes in the global banking industry.

Nigerian fintech is a reflection of the wider development of financial technology, with significant advancements starting in the early 2000s. With the advent of electronic banking and mobile money services in the early 2000s, Nigeria's fintech scene started to take shape. Launching the National Financial Inclusion Strategy in 2012 with the goal of expanding access to financial services through technology, the Central Bank of Nigeria (CBN) played a crucial role (Ojo, 2018). The rise of mobile banking and payment systems in the 2010s marked a significant period for Nigerian fintech. Companies like Paga and Paystack emerged, providing innovative payment solutions and gaining widespread adoption. The 2016 launch of the CBN's fintech sandbox initiative further facilitated the growth of fintech startups by allowing them to test new technologies in a controlled environment (Adegboye & Ojo, 2019).

Fintech investments have increased recently in Nigeria, coinciding with the emergence of new fintech sectors such as insurtech, regtech, and blockchain-based solutions. The fintech industry in Nigeria is expanding because to rising smartphone adoption and consumer demand for digital financial services (Adeniran, 2021). This vibrant industry is expected to have a significant positive impact on the region's economic development and financial inclusion.

### 2.1.2   Types of Financial Techs
According to Susanne and Janos (2016), digital-based financial services include:
a. **Payment Channel System:** This is an electronic service that serves to replace banknotes and demand deposits as a mode of payment.
b. **Digital Banking:** This is a type of banking that makes use of digital techs to satisfy the demands of its clients.
c. **P2P lending:** This is a type of financial business that uses digital techs to connect those who need money with others who are prepared to lend it to them.

### 2.1.3   Concept of Profitability
A crucial indicator of a business's financial performance is profitability, which shows how profitable it is in relation to its sales, assets, or equity. It acts as a gauge of how well the business manages its resources and operations to generate profits (Brigham & Ehrhardt, 2016). Numerous financial indicators and ratios are frequently used to evaluate profitability because they offer distinct perspectives on various facets of a business's financial health.

Two essential elements of profitability are net income, which is the remaining profit after all costs, such as taxes and interest, have been subtracted from revenue, and gross profit, which is determined as revenue less the cost of goods sold (COGS) (Fridson & Alvarez, 2011).

Typically expressed as percentages of revenue, the gross profit margin and net profit margin are standard profitability ratios that are used to assess a company's overall profitability and operational efficiency (White, Sondhi, & Fried, 2003).Return on equity (ROE) evaluates how successfully a business uses the equity of its shareholders to generate earnings, while return on assets (ROA) examines how effectively a business uses its assets to generate profit (Penman, 2013). These are two more crucial profitability ratios. A thorough understanding of a company's financial performance is offered by these measurements.

## 2.2   Theoretical Review
### 2.2.1   Technology Acceptance Model:

The Technology acceptability Theory (TAT), put out by Davis, Bagozzi, and Warshaw (1989), explains the conceptual model of users' intention or level of acceptability towards new technology or information systems. It simulates how people adopt and utilise technology. When humans utilise technology, it's actually for system usage. One thing that motivates people to use technology is their behavioural intention. This intention is shaped by one's attitude towards technology. TAT is based on two main pillars, specifically:

i. Perceived usefulness: this refers to individual belief to improve the degree of job performance through using a particular new technology and information system.

ii. Perceived ease of use: It indicates easy of technological usage (Davis, Bagozzi & Warshaw, 1989; Gefen, Karahanna & Straub, 2003). The model places more emphasis on ease of use would positively affect perceived usefulness.

The perceptual characteristics of ease of use and usefulness form the foundation of technological acceptance theory. TAT is frequently used in information technology research. These pillars serve as the study's benchmark for adopting and accepting theories.

## 2.3    Empirical Review

Financial technology and the performance of Nigeria's banking system were studied by Adiga et al. in 2022. The study's particular goals are to look at how financial technology affects Deposit Money Banks (DMBs) in Nigeria's return on assets (ROA), return on equity (ROE), interest income (II), and non-interest income (NII). An auto-regressive distributed lag (ARDL) technique was used to test the interaction between the independent variables—payment system, automated clearing services, and remittance services—and the dependent variables, return on asset, return on equity, interest income, and non-interest income, at a significance level of 5%. The study was based on the Technology Acceptance Model (TAM), Central Bank of Nigeria (CBN) statistical bulletin, and Nigeria Deposit Insurance Corporation (NDIC) report of various years. With the exception of interest revenue fluctuation, financial technology significantly explains variation in DMBs' ROA, ROE, and non-interest income in Nigeria. According to the study's findings, financial technology had a major role in explaining why there was variety in the ROA, ROE, and non-interest income performance components of the banking sector. Therefore, the study suggests, among other things, that deposit money banks should work harder to encourage their clients to use financial technology products by streamlining their offerings, guaranteeing their security, and ensuring their speed and efficiency. All of these factors will help to improve the activities carried out via payment systems, foreign remittances, and the value of automated clearing, ultimately improving the performance of the banking sector.

The performance of financial institutions was studied by Okoro et al. in 2024 in relation to financial technology. Evidence from banks in Nigeria. Financial performance was measured by the liquidity ratio, while financial technology was measured by the volume of transactions made through online banks, POS systems, and ATMs. Ex-post facto methodology was used to accomplish the study's goal. A secondary source, the CBN statistical bulletin, was used to gather the data. Regular least multiple regression analysis was used to examine the gathered data. The outcome showed that ATM transactions improve Nigerian commercial banks' performance. Nigerian commercial banks perform better as a result of point-of-sale transactions. The performance of commercial banks in Nigeria is negatively impacted by online banking transactions. In order to support the findings, the study recommends that financial institutions do more to entice their clients to use FINTECH products more regularly.

The effect of fintech on Nigerian banking services was investigated by Adewumi et al. in 2023. This study used a quantitative research design, utilising descriptive analysis and econometric modelling to analyse data from financial statements of particular Nigerian banks as well as financial technology application statistics. Fintech has a beneficial effect on traditional and market-based performance measurements used by Nigerian banks, according to the report. Based on statistical analysis, an average rise of 1% in ATM transactions might result in an N4 boost in banks' earnings per share. This suggests that the banking sector in Nigeria may utilise fintech to boost financial inclusion, lower costs, improve customer satisfaction, and increase efficiency. This research adds to the increasing amount of literature on fintech in emerging nations by shedding light on how Nigeria's fintech scene is developing and how it can affect conventional banking services. For legislators, regulators, and business professionals looking to foster an atmosphere that is favourable for fintech expansion in Nigeria's banking sector, this report offers insightful information.

Nigerian deposit money banks' financial service delivery was the subject of an investigation by Muhammad et al. in 2022 regarding the influence of financial technology (FINTECH). Ex-post facto method research design was employed because the study uses annual reports and accounts of deposit money banks listed on the Nigerian Stock Exchange (NSE); secondary data came from the bank's financial reports, which were available in the annual reports and accounts for the ten-year period from 2012 to 2021. The data are analysed using SPSS 22 statistical software through the use of descriptive statistics, regression analysis, and correlation analysis. The findings indicated that the financial services provided by Nigeria's listed deposit money banks are significantly impacted by mobile, online, and point-of-sale banking. Based on findings the study recommends that mobile banking should focus more towards improving benefits associated with mobile transactions by providing more convenience to users in terms of user friendliness, fast network, payment methods etc.

Onuorah et al. (2022) looked at how Nigerian banks' profits are impacted by fintech. The purpose of this study was to investigate the impact of Fin Tech advancements on Nigerian banking performance. This was accomplished by using the annual transaction volumes from digital payment platforms, digital banking platforms, digital lending and loans platforms, and digital investment and crowd contributory platforms. The aggregate ROA for all deposit money banks in Nigeria was used to calculate profitability (DMBs). Eleven years' worth of secondary data on the selected FinTech platforms and institutions from 2010 to 2020 were used in this study. The ordinary least square (OLS) regression estimation method was used for data analysis. The findings revealed that there was no indication of autocorrelation and that the model had a 74% fit. Furthermore, the regression result showed that the advent of FinTechs has significantly increased banks' profit because of the increasing volume of transactions passing through these technologies in cooperation with banks. Financial advancements have therefore greatly benefited Nigerian banks. The study suggests that banks should reach out to the unbanked and use financial innovations to increase their profitability right now.

## SECTION THREE
### Research Methodology

Ex-post facto research methodology was employed in this study, and secondary data from the Central Bank of Nigeria's Bullentin was taken out for the independent variables. Out of the eleven banks mentioned on the Nigerian Exchange Group, five listed deposit money banks were included in the audited financial reports. These banks were selected using

judgemental sampling approaches, and the banks' profitability was determined by measuring Return on Assets over a ten-year period (2010-2019). Zenith Bank Plc, Fidelity Bank Plc, United Bank for Africa Plc, Wema Bank Plc, and Unity Bank Plc are among the banks involved.  The model specification used in this study is based on the description of the relationship between the predictor and the criterion variable of this study. The econometric form of the model is stated as:

$$ROA = R_o + R_1ATM + M_2MP + \sum$$
$$LogROA = R_o + R_1LogATM + M_2LogMP + \sum$$

*Where:*

ROA = Return on Assets
ATM = Automated Teller Machine
MP = Mobile Pay
$R_0$ = Regression Constant
$\sum$ = *Stochastic Error*

Regression analysis was performed using the Statistical Package for Social Sciences (SPSS) in order to experimentally assess the relationship between the independent and dependent variables of the study. According to the study's decision criterion, if the p-value is greater than 0.05, the null hypothesis will be accepted; if it is less than 0.05, the null hypothesis would be rejected.

# SECTION FOUR
## Data Presentation and Discussion of Findings

### 4.1     Data Presentation

In this segment, the variables computed for this study were presented. The variables were digital payments, mobile banking and return on assets. This variables constitutes the specific factors of listed deposit money banks identified and used in this study. The data collected and computed for this study were presented on the table attached in appendix.

**Table 4.2 Descriptive Statistics**

|  | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| LOGROA | 46 | .18 | 1.90 | 1.1438 | .32903 |
| LOGATM | 10 | 3.65 | 3.98 | 3.8696 | .10830 |
| LOGMP | 10 | 3.72 | 4.36 | 4.0664 | .21434 |

As a stand-in for profitability, return on asset (ROA) ranged from a minimum of 0.18 to a maximum of 1.90, as shown in table 4.2. With a standard deviation of.329, the mean value, or average return on assets (ROA) generated by listed money deposit banks throughout the study period, was 1.14.

The mean value of ATM users was 3.8, with a standard deviation of.10, and a minimum value of 3.65 and a maximum value of 3.98. The average number of ATM users at the listed banks during the study period was represented by the mean value of 3.8. The value of mobile pay ranged from 3.72 to 4.36 at its lowest and maximum. With a standard deviation of.21, the mean result for the survey period showed that, on average, 4.06 customers in the listed banking sector used mobile pay.

**Table 4.3: Correlations**
**Table 4.2: Correlation Matrix**

| Variable | LOGROA | LOGATM | LOGMP |
|---|---|---|---|
| LOGROA | 1 | .309 | .837** |
| LOGATM | .309** | 1 | .395 |
| LOGMP | .837** | .395 | 1 |

**Source: Research survey's 2024**

The results shows that, ATM had a positive correlation of .309 with ROA of listed deposit money banks which was significant at 1% level, indicating ATM are related to profitability of banks. Mobile pay exhibited a positive correlation of .837 with ROA significant at 0.05, implying Mobile pay are related to profitability of banks.

**Regression Analysis:**

The regression analysis was conducted to evaluate the impact of each independent variable on the dependent variable as stated in the hypotheses for the study

**Table 4.4: Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .838[a] | .702 | .616 | .06938 |

**Predictors:** (Constant), Logmp, Logatm
**Source:** Researcher's computation (2024)

**Table 4.5: ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .079 | 2 | .040 | 8.231 | .015[b] |
| | Residual | .034 | 7 | .005 | | |
| | Total | .113 | 9 | | | |

**Dependent Variable:** LOGROA
**Predictors:** (Constant), LOGMP, LOGATM
**Source:** Researcher's computation (2024)

**Table 4.6: Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -.257 | .836 | | -.308 | .767 |
| | LOGATM | -.027 | .232 | -.026 | -.114 | .912 |
| | LOGMP | .443 | .117 | .847 | 3.772 | .007 |

**Dependent Variable:** LOGROA
**Source:** Researcher's computation (2024)

According to the findings, the model's R-squared of 0.702 means that 70.2% of the changes in the profitability of Nigeria's listed banks can be explained by the independent variables. Overall, the model fits the data well, as evidenced by the F-statistic of 8.231 which is significant at the 1% level. ATMs have a substantial negative coefficient of -0.114 at the 1% level, indicating that more ATM services result in worse profitability. At the 5% level, mobile pay exhibits a positive coefficient of 3.772 significance, suggesting that increased usage of these services boosts profitability.

**TEST OF HYPOTHESES**
### 4.1.1 Test of Hypothesis One:
**Ho1:** *Automated Teller Machine does not have significant impact on the Return on Assets of listed deposit money banks in Nigeria.*

The ATM t-statistic's p-value from the regression model is examined in order to evaluate this theory. ATMs have a statistically insignificantly negative influence on the profitability of listed banks in Nigeria, according to the p-value of 0.912 (see Table 4.6), which is more than the 0.05 level of significance. The alternative is therefore rejected, and the null hypothesis is accepted.

### 4.1.2 Test of Hypothesis Two:
**H$_{02}$:** *Mobile Pay does not have significant impact on the Return on Assets of listed deposit money banks in Nigeria.*

According to Table 4.6, the regression analysis's t-statistic for Mobile Pay has a p-value of 0.07. Given that the p-value is higher than 0.05, the alternative hypothesis is rejected and the null hypothesis is accepted. Conclusion: The profitability of Nigeria's listed banks is positively and marginally impacted by mobile pay.
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### 4.2 Discussion of Findings
Strong empirical evidence regarding the notable impacts of important fintech characteristics on the profitability of Nigeria's listed deposit money banks is provided by the outcomes of the hypothesis testing.

According to the first hypothesis, ATMs have a statistically negligible detrimental effect on the profitability of Nigerian listed banks at the 5% level. The lack of a reliable pattern in the data that can be directly linked to the existence of ATMs is indicated by the negative regression coefficient. This is consistent with the findings of (Idowu et al., 2017), who found that statistical research did not support the notion that ATMs have a detrimental impact on earnings that is significant or trustworthy.

According to the second hypothesis, mobile pay contributes positively but marginally to the profitability of Nigerian listed banks at the 5% level. Due to a lack of solid or consistent data, the positive coefficient indicates that it is not possible to definitely ascribe the observed improvement in profitability to mobile pay. According to (Adesina & Ayo, 2018), there may be a tiny gain in profitability from mobile pay, but not enough for the effect to be statistically significant or dependable.

*Summary of the findings*
i.      The study found that ATM has an insignificant negative influence on the profitability of listed deposit money banks in Nigeria.

ii.     Mobile pay has a positive and insignificant effect on the profitability of listed banks in Nigeria at 5% level. Based on correlation analysis, ROE had a positive relationship of $r = 0.837$ with profitability.

## SECTION FIVE
## Conclusion, Recommendation of Findings

### 5.1     Conclusion
Examining how fintech affects listed deposit money banks in Nigeria's profitability is the primary goal of the research. Through metrics like mobile pay and automated teller machines (ATMs), financial technology offers vital insights into a business's profitability. For Nigeria's listed deposit money banks, fintech technologies offer both potential efficiency gains and client outreach as well as threats to their profitability. The former requires major investment and alignment with strategy, while the latter is more difficult.Even if fintech has a beneficial effect, its influence on profitability is frequently statistically small, which emphasises the necessity for banks to successfully integrate these technologies in order to realise major financial gains. After testing several hypotheses, the $R^2$ value of 0.702 indicates that there is little impact of variation on the profitability of Nigeria's listed deposit money institutions.

### 5.2     Recommendations:
Based on the findings of this study in chapter four, the following are recommended
a.     Given the enormous potential in this market, banks should concentrate on developing and enhancing their mobile payment offerings. Banks might potentially enhance their profitability by drawing in more clients and increasing usage through the provision of more user-friendly interfaces, robust security, and new features.
b     .The advantages and security of utilising digital banking services and mobile payments should be made clear to customers by banks through education. Adoption rates and transaction volumes may rise as a result, improving profitability..
c.     Work together with fintech firms to take use of their knowledge and technological prowess, allowing banks to provide more competitive and inventive financial solutions. Partnerships can enhance service delivery and lower the cost of technology development.
d.      Invest in technology that lowers expenses and simplifies processes. To improve scalability and flexibility, this involves implementing cloud-based technologies and automating back-office procedures.

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