The Impact of Fintech Innovation on Financial Inclusion and Commercial Banking Stability in Developing Economies

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Abstract

This paper looks closely at the real economic trade-offs that happen when Fintech grows rapidly in developing countries. We focus on two main things: how digital finance helps include more people in the financial system, and how it impacts the safety of traditional commercial banks. On one hand, tools like mobile wallets and online lending apps break down old barriers, making it easier for unbanked populations to manage money. On the other hand, this rapid shift creates brand new risks for the wider financial system. Using detailed data from across several developing nations, this study tracks how digital credit expansion directly affects classic banking health indicators like bank Z-scores, non-performing loans (NPLs), and shifts in steady retail deposits.

Our analysis shows that a clear turning point exists. When digital finance adoption is low or moderate, it actually helps traditional banks by boosting overall efficiency and spreading out operational risks. But once Fintech adoption passes a certain tipping point, the dynamic flips. It starts pulling cheap deposit bases away from established commercial banks. To fight back and keep profits up, these banks often take on much riskier loans. To handle this, the paper offers practical policy paths for central banks and financial regulators. We argue for active regulatory sandboxes and updated capital safety rules so that governments can welcome digital financial growth without risking the safety of their core banking infrastructure.

Keywords: Fintech, Financial Inclusion, Banking Stability, Central Bank Policy, Developing Nations