

Digital Banks: How Do They Change Banking? Evidence from Global Panel Data*

Tatsushi Okuda[†]

Bank of Japan

Dmitry Vasilyev[‡]

International Monetary Fund

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Abstract

Access to finance appears to remain expensive in many countries, with the cost of financial intermediation persistently high. Digital banks—enabled by fintech innovations—have the potential to improve efficiency by increasing competition in the banking sector. Using a global panel of over 8,000 banks across 208 countries and jurisdictions, we examine whether and how digital banks affect intermediation costs. We find that the entry and growth of digital banks reduce incumbents' net interest margins, primarily through more intense competition in deposit markets. This pressure also slows the growth of deposits and credit among incumbents. The effects are stronger in countries with higher initial margins and more developed financial sectors, while being broadly similar across banks of different sizes. Our findings highlight how digital entrants reshape competitive dynamics in banking markets.

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*The views expressed in this paper are those of the authors and do not necessarily represent the views of the IMF, its Executive Board, or IMF management, and the official views of the Bank of Japan.

[†]Bank of Japan: tatsushiokuda@gmail.com.

[‡]International Monetary Fund: dvasilyev@imf.org.