Review of: "Innovative Financial Services and Commercial Banks' Profitability in Africa"

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Potential competing interests: No potential competing interests to declare.

The paper "*Innovative Financial Services and Commercial Banks' Profitability in Africa*" explores the effect of three IT enabled innovation on return on assets of banks in Africa. The three innovations are ATMs, internet banking and mobilie banking. All three innovations have the potential to reduce costs for banks and increase profitability. The sample is restricted to 17 oldest banks in Africa spread over 13 years.

Using a random effects model, the authors find the three innovations to be positively correlated with the banking profitability.

My main issues with the paper are the following:

1. The authors do not explain how the innvoations have been measured. For example, the variable ATMs suggest it is the revenue generated by ATMs. But what revenue does an ATM generate: is there a fee charged per transaction? Similar critiques apply to the other variables.
2. The appropriate variable in this analysis should be the penetration of ATMs or other innovation per bank. For example, to measure ATM variable, use the number of ATMs for this branch per 100000 people or some other normalization. However, for internet and mobile banking, appropriate variables should be the number of mobile banking accounts per 100 deposit holders.
3. While discussing the model results, the authors claim "*a 1% increase in ATM service, mobile service, and internet banking services resulted in a 64%, 14%, and 26% increase in the profitability of commercial banks operating in Africa.*" I am not sure if this interpretation is correct. The outcome variable is the magnitude of return on assets and the explanatory variables are also in magnitude. As such, the coefficients do not have thhe interpretation of percentage change. That will happen if the authors had taken log transformations of the variables.
4. The qualitative assessment is impressive. In particular, bringing in the discussion with bank managers can be an important dimension of the paper. I would suggest to do a more thorough review of the comments by bank personnel.
5. Finally, section 2.3 is redundant. There is no need to discuss these innovation theories when they are not part of the analysis.