**Technology‑Profitability Paradox in Banking Sector: Evidence from Palestine**

**Abstract**

The rapid growth in technology and digital transformation boost banks to invest in technology as necessity not only for maximizing their profits but also to increase their knowledge about their clients. We develop a research hypothesis that growth information technology positively impacts bank profitability. We study Palestinian market, where the bank technology has been impressive. Using a sample of six banks from the period 2015 to 2020 and data collected from the bank annual reports. We test our hypotheses using vector error correction model and panel data estimates. The results demonstrate a negative and significant effect of investment in hardware and software on bank profitability. However, investment in ATMs is positively and significantly related to profitability. A long-term duration effect was also found. Our main conclusion confirms the existence of technology-profitability paradox in the context of Palestinian banking sector. Our policy implications suggest that bank directors should focus on technology investment that generates more profits rather than cost saving.

Keywords: technology, profitability, hardware, software, ATMs