

**THE REAL EFFECTS OF FINANCIAL INNOVATION
EVIDENCE FROM CREDIT CARD MARKETS
ANTOINETTE SCHOAR**

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The paper

- Naiveté-based price discrimination
- Applied to credit card offer letters
- Shrouding and design features of offer letters; differences in front- and back-loaded pricing
- Less educated consumers receive more back-loaded terms, and more shrouded offers
- Issuers rely more heavily on back-loaded and shrouded contracts when credit risk of consumers is reduced (safety net allows easier access to credit)
- Differential effect of monetary policy changes on front- vs. back-loaded terms across customers

What can we learn from the paper?

- Important difference in views: rational (credit constraints) vs. behavioural (myopic, literacy) views
- Shrouding similar to other sectors (pharmaceutical commercials on TV)?
- Important difference in finance – intertemporal contracts; implies stronger repercussions
- Importance of data availability – more data, more consumer-specific targeting allows better discrimination
- Does better data availability also give an advantage to BigTechs?

Policy implications

- Consumer protection; financial education?
 - *Regulate front sizes, lay-outs (like in tobacco)?*
 - *Invite/force customers to go through pre-emptive counseling (sub-prime mortgage experiment in Chicago)*
 - *Interest rate limits?*
 - *Other ideas?*
- Credit card offers might come in waves – credit cycles – is there a role for macro-prudential monitoring and possibly regulation?
 - *Could there be herding trends? Negative role of competition....*
 - *There seem to be currently lots of deposit offers in the US...*
- What implications for monetary policy transmission?
 - *if more back-loaded than forward-loaded adjustment, does this imply less effective monetary policy transmission, exacerbating credit cycles and crisis risk?*

Finally....

- How do we think about information availability?
 - *Better risk assessment, easier access to credit*
 - *More price discrimination, more predatory lending*
- With everyone talking about BigTech – what does this imply for the future of consumer lending? Even stronger price discrimination? Does this make these institutions even more systematically important
- And the big elephant: who owns people's data?

THANK YOU

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