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



Comments by Thorsten Beck

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?

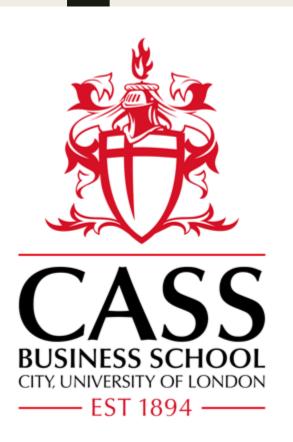
- Important difference in views: rational (credit constraints) vs. behavioural (myopic, literacy) views
- Shrouding similar to other sectors (pharmaceutical commercials on TV)?
- Important difference in finance intertemporal contracts; implies stronger repercussions
- Importance of data availability 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

Thorsten Beck

www.thorstenbeck.com

@TL_Beck_London