

BigTechs, Credit, and Digital Money

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This policy paper

- Important topic: What is the future of technology-enabled uncollateralized lending?
- Use of non traditional assets in production mean that is it increasingly important to be able to lend against “non-traditional” assets (highly illiquid collateral)
- Financial Inclusion

Frictions

Lending against future repayment without collateral:

- 1) Some people always repay and others don't
 - Need to identify “good types”
 - Information and information processing

- 2) If everyone is strategic
 - Need a way of enforcing repayment
 - Everyone cheats

Solution: Centralized Platforms

Centralized Platforms process transactions and solve incentive frictions efficiently, but can generate inefficiencies

BigTech Platform

Future sales as collateral

Monopolist/Rents

Closed Payment System

Government Ledger

Utility

CBDC

Lack of Privacy

Assumptions on the Economic Environment

- 1) Data cannot be credibly stored and reported.
 - Data is ephemeral and not portable
- 2) Transactions are settled/consumed instantaneously
 - Seller's side: There are no transactions with delayed payments
 - E.g. No Invoiced Goods
 - Buyer's side: These are not goods with a stream of benefits
 - E.g. No Durable Goods

#1 Information

- Suppose market power derives from ephemeral information
- Transaction processor is the (unique) natural lender
- Gov't/ Regulatory Response: commoditize information
- Economic Questions: Who owns it?

#2: Settlement is not instantaneous Loans for Sellers

- Factoring: Large and vibrant market (USD 4,000 bn globally)
 - Future sales are digital collateral if there is a receipt
- Government/Regulatory response: ensure receipt standardization/contractual enforcement

#2 Settlement is not instantaneous Loans for Consumers

- Collateral is the future consumption benefits from the product
- PayGo lockout technology used for solar panels (East Africa)
- Use in mobile phones
- Estimates increase in welfare (but also very profitable 143%-201%)
- Gov't/Regulatory response: Enable competition i.e., allow switching

Source: Gertler, Green, Li and Sraer "Welfare Benefits of Pay-As-You-Go Financing 2025"

Platforms and Payments: Do walled payment gardens work ?

- Yes: if the payment is a messaging system like JPMCoin.
- No: If it is a fiat backed stablecoin such as in GENIUS bill
- Government/Regulatory response: stable markets to buy/ sell coins

Walmart and Amazon Are Exploring Issuing Their Own Stablecoins

Corporate coins could take payments activity away from banks and the traditional financial system

Utility Platforms and Platform Competition

- Creating a new multi-sided market requires significant resources
 - Pix
 - Swish

Govt/Regulatory Response: Interoperability or standards

- Singapore SGQR
- India Stack

Takeaways

- Rapid technical change plus a bit of regulatory uncertainty.
- Important for each set of frictions to think through market optimization and appropriate regulatory response.
- Difficult to set standards without knowing future shape of financial intermediaries.