Fintech and big tech credit: a new database

Cornelli, Frost, Gambacorta, Rau, Wardrop, Ziegler

Discussion

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This paper

1. Data on fintech & big tech credit volumes in 79 countries over 2013-18

2. How large are these markets? In absolute, relative to each other, relative to overall credit markets? What economic and institutional (demand and supply side) factors drive their growth and adoption?

3. Incredibly important given striking lack systematic comparable data and speed and magnitude of potential disruption in financial markets
   - Unprecedented opportunities & policy challenges (financial inclusion, efficiency, competition, discrimination, data protection, financial stability, …)
   - Urgency accelerated by COVID. Network power may be a one-way street

4. This is an output of a broader and co-ordinated effort

Key trends

- Big tech credit is booming, overtaking fintech credit

- Collectively, becoming significant portion of total credit in a few economies
  - China, Japan, Korea, parts of Southeast Asia, East Africa, some Latin America

- Relative importance varies across countries
  - Fintech exits China, while Big Tech credit is booming
  - Fintech credit is growing in Europe, while Big tech is booming in Asia

- Big tech highly profitable, while fintech platforms have often struggled

Economic factors

These alternative credit correlate:

1. positively with economic development, but at a declining rate
   - Reflect both demand and supply
2. positively with less competitive banking sectors
   - Lerner index, bank branches per 100K adult population
3. negatively with stringency of banking regulations – this is very strong
   - … also when you control for explicit fintech regulation as in Rau (2020)

- All three relations much stronger for fintech and explain a much larger part of the variation (R2: 51.6% vs. 11.2%)
- I think this is very interesting and underscores the importance of looking at fintech and big tech separately. These are likely very different.

More economic factors

- These alternative credit additionally correlate:
  - **Institutions**
    - Ease to start a business (+)
    - Investor protection (disclosure, judicial efficiency) (+)
      - Same takeaway as for bank credit
  - **Banking sector characteristics**
    - Credit-to-deposit ratio (+)
    - Bank regulatory capital (+)
    - Provisions for non-performing loans (+)
    - Presence of foreign banks (-)
      - Interpretation sometimes a bit more tricky

Comments

- Paper considers fintech and big tech markets both jointly and separately
- Studying separately really important as likely different
- Do that throughout, also for later analysis (institutions, bank characteristics)
- A bit more on what factors may correlate with the greater expansion of fintech versus big tech or a greater expansion of each relative to bank credit
- Consider additional dependent variables
  - Two against each other (Fintech/big tech)
  - Against bank credit (Fintech/bank credit, Big tech/bank credit, Fintech+bigtech/bank credit)

Comments

- Factors such as banking regulation may paint a different (less positive) picture
- More on the banking regulations measured in the indexes considered
- Specific regulations on permissible mode of entry and scope in different countries
- Exploit changes in regulations in some countries

Conclusions

- Incredible service in putting together this data and establishing some first relations to broad economic factors

- First messages are positive in that these alternative funding sources are complementing rather than substituting existing sources

- Need for more systematic disaggregate info (intersection, dynamics)
  - Similar to creation of credit registries for bank credit. Inclusion should be product driven

- Entry and subsequent behaviour may nevertheless be fundamentally different. Key to think how policy can maintain competition