

DATA VS. COLLATERAL

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Changing more than a name



THIS PAPER

- Bigtech credit does not correlate with local business conditions and house prices, but reacts strongly to changes in firms' transaction volumes and network scores
- Secured and unsecured bank credit react significantly to local house prices
- Bigtech credit can reduce reliance on collateral and (maybe) make lending less procyclical
 - But maybe bigtech clients' revenue stream less procyclical?
- Highly topical paper, great data, important discussion

FINANCIAL INCLUSION – CHALLENGES AND POSSIBLE SOLUTIONS

- Outreach of traditional financial institutions often limited due to cost and risk factors:
 - High delivery cost meets demand for small and few transactions
 - Informality and non-regular income stream result in high risks
- Mobile phone technology and the Internet have enabled quicker information exchange, new delivery channels and better exploitation of economies of scale
- The information technology revolution has facilitated the creation, processing and use of “big data” and applied statistics for financial risk measurement and management
- Distributed ledger technologies (DLT) allows keeping and sharing of records in a synchronized way while ensuring their integrity through the use of consensus-based validation protocols



DIGITALISATION-LED FINANCIAL INCLUSION

- Expand digital financial services from payment to other financial services
 - Cooperation between MNOs/bigtechs and banks
- QR code for payment purposes
- Smart contracts (e.g., property registries; cross-border payments)
- Text messages allow easier communication with client
- Lending platforms
- More generally: digital footprint and capacity to turn soft into hard information is more informative than credit registry data (undermining banks' information advantage)

BIG DATA – ENABLING BETTER ACCESS TO FINANCE VS. EXTRACTING CONSUMER SURPLUS

- Rational view: More data, more information is better as it reduces information frictions and thus agency problems
- Behavioural view: more data allow financial institutions to better exploit behavioural biases among consumers through targeted shrouding and allows price discrimination and (more important in finance, given intertemporal nature of contracts)
- Also an issue in insurance (exclusion of risky clients)
- Big question: Ownership of personal data

CREDIT AND THE BUSINESS CYCLE

- As economy deteriorates (improves)
 - Collateral constraints for borrowers tighten (ease)
 - Funding constraints for financial institutions tighten (ease)
- Differences between different types of financial institutions
 - Relationship vs. transaction-based lenders
 - Domestic vs. foreign banks
 - Capitalisation of banks
- Important: use of collateral can make lending more procyclical!
- But: are bigtech lender really less procyclical or are their borrowers' transactions less procyclical?
- Is lending based on big data the new transaction-based lending?

THE ROLE OF MONETARY POLICY

- Objective of monetary policy is to mitigate procyclical lending by financial institutions, with transmission into the real economy
- Broader outreach of financial system can increase transmission of monetary policy
- But not as effective if
 - No wealth constraints for borrowers (no collateral-based lending)
 - No funding constraints for financial institutions (no funding through CB to bigtech companies)
- Broader question on (i) regulatory perimeter and (ii) monetary system
- Similar questions arise for macro-prudential policies
- Do policy makers need new tools?

IN CONCLUSION

- The future of finance/banking is an important question
- Big gains for financial inclusion can be reaped from digitalization, but there are important pitfalls
- Monetary policy transmission an important dimension of this challenge
- This paper is about bigtech – what about other fintech forms (e.g., lending platforms)
- Can we extrapolate from experience in China to other countries?
- Start of an important conversation

THANK YOU

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