

Discussion of

The Effects of Open Banking on FinTech Firms' Dynamics and Funding Structure

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Summary

Question: what is the impact of Open Banking (PSD2) on FinTech firms?

- Very rich and original data on Spanish fintech firms:
 - ▶ Fintech registry + balance-sheet data + detailed VC/funding information.
- Clean DiD framework:
 - ▶ Payment fintechs (treated) vs other fintechs (controls), pre/post PSD2.
- Main messages:
 - ▶ Performance and revenues of payment fintechs improve after PSD2.
 - ▶ Funding structure tilts away from bank debt towards equity.
- My discussion:
 - ▶ Focus on **what the DiD actually identifies** and **how to interpret the funding results**.
 - ▶ Then some suggestions on mechanisms, measurement, and presentation.

Issue 1: Identification

Setup

- Treated: payment services fintechs (AISPs, PISPs, EMIs, wallets, gateways).
- Controls: all other fintechs (incl. advisory, crypto, infrastructure, robo-advisors).
- Identifying assumption: controls are unaffected by PSD2.

Concern: indirect treatment for some controls.

- Open banking is an *information-rights* reform.
- Other fintechs can plausibly benefit indirectly from mandated access to account data (e.g. via access to bank-account data through aggregators, or via demand spillovers from the payments side).

Suggestions

- Control group is better viewed as less directly exposed, rather than truly “unaffected”
→ estimates may be a lower bound on the effect.
- Consider a robustness check with a narrower control group (least likely to use PSD2-type data).

Issue 2: DiD interpretation

Design

- DiD setup:

$$y_{it} = \beta_1(\text{Post}_t \times \text{Payment}_i) + \text{firm FE} + \text{year FE} + X_{i,t-1} + u_{it}$$

- β_1 measures a **differential change**.

Concern

- Text often reads as:
“PSD2 was associated with a significant shift away from bank financing in the funding structure[...]”
“adoption of [OB] has led payment services fintech firms to improve their performance”
- But empirically you estimate: “more than other fintechs”.

Suggestion

- Facts first: show simple pre/post means or plots for both groups before DiD.
 - ▶ Actual revenue / performance effects likely bigger (positive shocks to other FinTechs).
- Make the “relative to other fintechs” nature explicit in wording.

Issue 3: Economic mechanisms

What the paper shows

- PSD2 $\Rightarrow$ higher performance for payment fintechs.
- Channel decomposition: mainly via *higher revenues*, not lower costs.

What is less clear

- Why do revenues rise?
 - ▶ Business shifted from banks / traditional players?
 - ▶ Genuinely new services / markets?
 - ▶ Easier customer acquisition with mandated data access?
- Treated group is heterogeneous (AISPs, PISPs, EMIs, wallets, gateways).

Suggestion

- Use heterogeneity (licences, business models) to separate mechanisms.
- Consider what's the more important story (revenues $\leftrightarrow$ performance)

Issue 4: Small firms $\rightarrow$ noisy ratios

Context

- Many fintechs are very small, young firms.
- Key variables are *ratios*: ROA, bank debt/liabilities, funding/equity, etc.

Concern

- Tiny denominators $\Rightarrow$ very volatile ratios.
- A few extreme ratios can drive DiD estimates
- Parallel-trend tests may be low power and noisy.

Suggestions

- Show size distribution by group (pre/post).
- Re-estimate key specs: (1) trimming smallest firms, and/or (2) using levels/log-levels of numerators (profits, bank debt, funding).

Issue 5: Dynamics

Dynamics

- Results suggest a jump around PSD2, but post-2018 path is hard to see.
- Theory: temporary rents vs persistent gap (competition/entry).

Concern

- If PSD2 induces a *level jump*, growth rates spike once then normalise.
- DiD on growth averages spike + normal years $\Rightarrow$ small coefficients.
- Profit dummy (above 3-year average) quickly saturates and is hard to interpret.

Suggestion

- Show clear dynamic patterns for core outcomes if possible in the main text.
- Complement growth/dummy specs with DiD on levels/log-levels and pre/post means.

Other Points to Flag

- Entry/exit: clarify whether the panel is unbalanced and check robustness on incumbents present pre & post.
- Add simple assets/equity/debt/other-liabilities breakdown by group to anchor funding results.
- Funding “volatility”: give more intuition or relegate to appendix (mixes frequency and size of rounds).
- Symmetric growth rate: check definition vs standard symmetric growth rate.
- All results are relevant to the story? (e.g. ‘first issuance’)
- Naming: harmonise labels (e.g. “funding volume”, “amount funding”).