BANCO DE ESPAÑA
Eurosistema

“THE ROLE OF FINTECH IN SMALL BUSINESS LENDING: EVIDENCE FROM FRANCE”.

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“New technologies in the banking sector – impacts, risks and opportunities”

DGA INNOVACIÓN FINANCIERA E INFRAESTRUCTURAS DE MERCADO

PAPER SUMMARY

- **Research question**: Are Fintech and Banks loans complements or substitutes for firms?

- **Result:** the authors observe that firms obtaining a FinTech loan, relatively to similar bank borrowers, are more leveraged, invest and innovate more, and experience an expansion in bank credit access afterwards.

- **Approach**: they construct a control group consisting of firms that only borrow from banks, but have similar characteristics and credit history as firms borrowing from FinTech platforms.

PAPER CONTRIBUTION

- **Most of the literature have focused on consumer credit** and find that FinTech is a substitute for traditional banking.
    - This is one of the first papers that provide a comprehensive description of the **FinTech SME lending market** using detailed **loan-level data.**
- By **linking the FinTech loan dataset to the French credit registry**.
- The authors observe all types of bank loans of FinTech borrowers, which allows them to **discover a novel channel for the complementarity between FinTech and bank lending: the collateral channel.**

PAPER CONTRIBUTION

- FinTech borrowers are able to **establish new banking relationships**.
- **Potential impact on the composition of bank loans**: the reduction [in credit lines] is however temporary, […] In contrast, FinTech borrowers experience a 10% increase in long-term loans following the FinTech loan grant, and this increase persists for 14 months.
- **Results aligned with collateral channel** (no information channel):
  - The treatment effect is concentrated among firms that have a **credit score**.

COMMENTS: GENERAL

- The paper results are in line with the recent work from BIS (2020) “**Fintech and big tech credit: a new database**”.
    - *Overall, **alternative credit seems to complement other forms of credit,** rather than substitute for them.*

- **Dataset**: the paper exploits a unique dataset on Fintech SME loans collected by the Banque de France. It covers over 50% of the Fintech SME french market.

COMMENTS: TECHNICAL

- **Regressions:**
  - Results from regression (1) are missing? **No fixed effects**?
  - **Controls** in regression (2): why not including neither in the matching nor the regression (e.g: age and location)?
- **Control group:** matching using 5 nearest neighbours. It could be illustrative to add a Table with the average characteristics (industry type, total financing, nº of bank relationships, etc) of firms in both treatment and control groups.
  - Banking active relationship: could we justifiy using - 6 / + 6months?
- **Table 4 –** Fintech & Bank has 413 firms, while treatment group is 869 firms; and control group is said to be 2,411 while in this table shows 2,910 firms.
- **Figure 4** – please clarify if "drawn/ undrawn" loans refer also to credit lines.

COMMENTS: POLICY IMPLICATIONS

- Authors' claim:

  "we believe our results have general implications and could inform policy makers of the value of FinTech lending".

- As a banking license is not requited for IFPs [crowdfunding platforms] they are subject to neither capital nor liquidity requirements.

- **Potential future research**:
  - **Impact of monetary policy measures** e.g: capital requirements, LTROs, QE, tiering of reserves on prices/ amount in fintech platforms.
  - **Elaborate on bankruptcies**:
    - ***Figure 8:*** *Are Fintech and Banks belonging to control groups? Could we check whether Fintech&Banks shows a higher risk profile too?*
    - *Estimate* ***impact on Risk Weighted Assets*** *variability: potential increase in RWA (higher PD in Fintech&Bank?).*