Discussion of « Financial innovation and borrowers: Evidence from Peer-to-Peer lending »
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Views are my own and shall not be interpreted as those of Bank of France or Eurosystem
The paper in a nutshell

• Empirical paper on benefits of P2P lending
• Discussant’ curse:
  – Well executed paper on a topical issue
  – Many exercises with funny names (donut RDD regressions)
• Main results:
  – P2P lending affects access to bank credit through info spillovers
  – **Policy-implication:** Do not worry about P2P, they are improving the banking environment
• My discussion
  – What’s driving the result?
    • “they do not generate any new soft information (...) but improved accuracy of screening based on hard data” (4)
  – Implication for banks’ business model and banking theory?
    • “Growth of P2P counterintuitive given that fin. Intermediation emerged in response to mkt imperfections” (p. 8)
Three main comments

1) That P2P can improve the lending process to the point that banks start using P2P signal to decide on granting creating, something that
   a) Suggests that P2P lending improves agents’ welfare
   b) Requires an explanation of why banks did not use the same kind of screening technology used by P2P sites before the invention of P2P (was that a massive failure, before P2P, by banks to process the existing information?)

2) Consistent with view of banks as creating smoke screen to protect their rents but with what consequence on efficiency?

3) What’s driving the result?
   Opening a new space for borrower to signal their quality or better hard info processing?
Data

• Prosper.com: >500 borrower characteristics, a lot information
  – Some self-reported (income, employment history...) and credit bureau data supplied at the time of the application
  – Everybody have access to them: Data freely available for download on Prospect.com (but only if you’re in the US 😞)
• Main result: there is info in the data that the banks finds useful to use to grant credit
  ⇒ If you’re credit-constrained, provide (public) info on prosper.com and get 2 loans at 20% interest rate!
• Two free lunches to explain:
  – for banks: what had prevented them to use this information before Fintechs emerged?
  – for customers: why is the provision of easily available or self-reported data changing the lending outcome (given that you can manipulate it?)
    • Technology or signaling of commitment/behaviour?
Technology or signal?

• Banks use P2P information to grant loans because of
  – signaling of effort (commitment?) or better screening by P2P?
  – The proceeds of P2P loans is used to consolidated bank debt
• Signaling willingness to renegotiate its banks’ debt
  – Not made properly by FICO (bins), no collat avail, no reputation
• Technology-driven explanation: Better data processing on P2P?
  – Intuition (1): P2P contains info that bks cannot easily access (true?)
  – Intuition (2): US P2P websites populate by institutional investors who use (more) sophisticated screening technology
  • But Puri et al. (2018): banks internal rating more efficient than credit bureau score
  • Tetyana’s result suggests P2P lending complementary to banks internal assessment (add info to predict default)
  • Oddly enough most info available to institutional investors is self-reported (use blockchain!)
• The technological interpretation suggests a massive organizational failure within banks before P2P... except if...
A view from fin. intermediation theory

• Banks process info (screen and monitor) but
  – winner’s curse: outcome of info processing can be stolen by competitors
  – Therefore screening requires rents accruing to banks because outcome of screening is a public good
  – Which requires a bank to conceal info to avoid its customers’ poaching to preserve their rents, cf. Breton (2011, WP BdF)
⇒ Banks have an interest in doing systematic mistake to make their financing decision uninformative to outsiders
⇒ Innovation could only have come from outside banks

• Explaining why competition from P2P broadens access to credit by reducing banks’ rents
  – Banks overbids on P2P: impact on stability of bank business model?
  – Or we’re back to P2P being better at processing public or self-reported info?
Summing up

• Very nice paper on an emerging phenomenon
  – **854,997** ALL-TIME PEOPLE EMPOWERED
  – **$13B** ALL-TIME BORROWED
  – **3830** LOANS IN THE PAST WEEK

• Very nice fascinating results
  – Increasing financial inclusion because of competition w/ bank lending and this is used by banks when customers threaten to refinance their bank borrowing w/ P2P proceeds