

Discussion of

*“Can FinTech Reduce Disparities
in Access to Finance?*

*Evidence from the Paycheck
Protection Program”*

by Erel and Liebersohn

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Fintech and supply of financial services

In the context of the Paycheck Protection Program (PPP):

- Fintech used more often in:
 - ZIP codes with fewer branches, lower incomes, more minority households;
 - industries with fewer bank relationships;
 - counties greatly hit by COVID;
- Substitution between FinTech and banks is small

Comments:

- 1) Are PPP results generalizable?
- 2) Is there necessarily a separation fintech vs traditional banks?

1) Are PPP results generalizable?

PPP:

- No expectation to get repaid, loan forgiven after a couple of months
- No need for collateral or credit risk evaluation

Even SBA loans, 50-85% government guarantee, but much stricter credit risk analysis.

2) Is there a separation Fintech vs Traditional Banks?

Traditional banks: brick-and-mortar branches; long-term relationships; cheaper and more stable funding (deposit insurance);

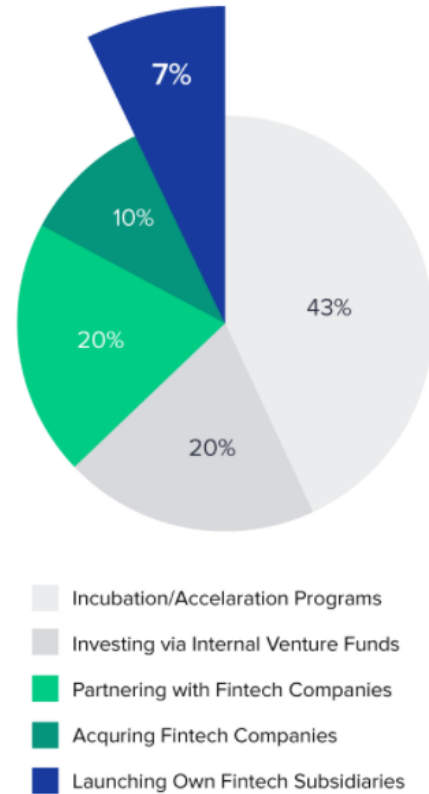
Fintech: mobile functionality, big data, agility and accessibility, and convenience;

Perhaps fintech gives greater competitive advantage and allows to fill the gap underserved communities, where banks are absent?

What prevents traditional banks from using Fintech? What prevents Fintech from becoming traditional banks?

What prevents banks from using Fintech?

Chart 2: How Banks are Currently Responding to the Fintech Movement



Source: Statista

Table 1: Fintech Startup Investments by Sector for US Banks

	Blockchain	Data Analytics	Insurance	Personal Finance	Wealth Management	Financial Services Software	Lending	Payment & Settlement	Real Estate	Regulatory Tech	Total
Citi	5	5		2	1	5	3	2		2	25
Goldman Sachs	2	3	1	1	1	2	2	6	2	2	22
JPMorgan Chase & Co	2	1			1	4	1	2		1	12
Morgan Stanley		2	1			3	1			1	8
Wells Fargo	2	2		1		1	1	1		1	9
Bank of America Merrill Lynch	1	2				1		1		1	6
TD Bank	1							1		1	3
Capital One	1							1			2
US Bancorp	1							1			2
PNC	1							1			2
Total	16	15	2	4	3	16	8	16		9	91

Source: CB Insights



What prevents Fintech from becoming traditional banks?

Investors warm to Lending Club, the fintech that became a bank

Shares soar after change helps company to lower funding costs and diversify products



Scott Sanborn, chief executive of Lending Club, says with the addition of a banking charter, 'we've got a real economic engine' © David Paul Morris/Bloomberg

Fintechs take on banks at their own game

Some digital start-ups in the US are beginning to accept customer deposits



Conclusion

- I really enjoyed reading the paper.
- Provides important insights into fintech lending.
- Some caveats about generalizability and potential adjustments to framing.