Discussion of


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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

Table 1: Fintech Startup Investments by Sector for US Banks

<table>
<thead>
<tr>
<th>Bank</th>
<th>Blockchain</th>
<th>Data Analytics</th>
<th>Insurance</th>
<th>Personal Finance</th>
<th>Wealth Management</th>
<th>Financial Services Software</th>
<th>Lending</th>
<th>Payment &amp; Settlement</th>
<th>Real Estate</th>
<th>Regulatory Tech</th>
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Source: Statista

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

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.