

Discussion of
“Customer Data Access and Fintech Entry:
Early Evidence from Open Banking”
by Babina, Buchak, and Gornall

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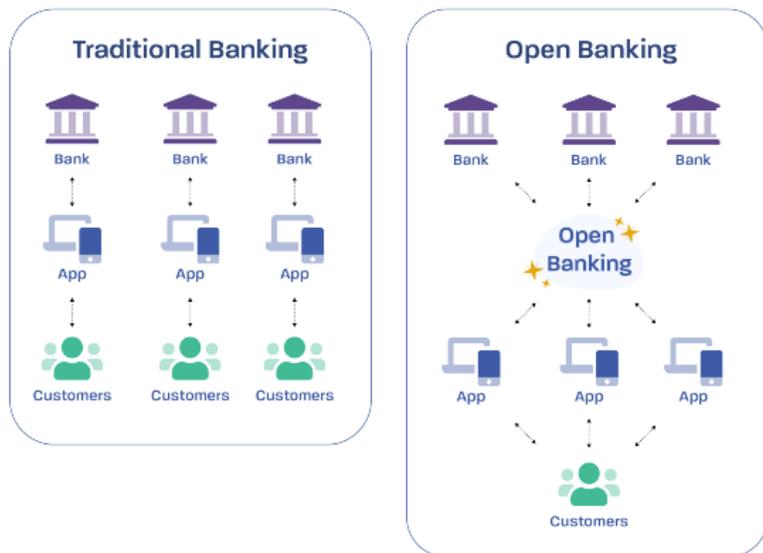
The Wharton School, University of Pennsylvania

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Summary and overall assessment

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- ▶ Open banking as an entrepreneurial regulatory effort



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- ▶ Entrepreneurial paper about open banking
 1. Novel hand-collected country-level data
 2. New facts about the causes and consequences of open banking
 3. Structural analysis shedding light on welfare
- ▶ Important context, rich data, interesting analysis
- ▶ Shoutout to Tania, Greg, and Will for incredible data initiatives and construction of the open banking index
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- ▶ Shoutout to Tania, Greg, and Will for incredible data initiatives and construction of the open banking index
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- ▶ Paper (or next papers?) may benefit from further and sharper exploration of **causes** and **consequences** to realize full potential

Causes

What drives open banking implementations?

- Table 2 shows inconclusive results about who implements

	Open banking implemented (0/1)				OB implementation (0-7)	
	(1)	(2)	(3)	(4)	(5)	(6)
Private sector credit to GDP	0.000 (0.002)				-0.002 (0.002)	-0.006 (0.006)
Branches per 100k people	-0.003 (0.006)				-0.005 (0.007)	-0.029 (0.021)
Financial sector Lerner index	0.149 (0.463)				-0.012 (0.401)	2.674* (1.366)
Non-fintech VC deals		0.080* (0.042)			0.075 (0.072)	0.440* (0.254)
Fintech VC deals		0.070 (0.073)			0.135 (0.099)	0.523 (0.348)
Foreign-owned banks			0.102 (0.121)		0.141 (0.195)	0.134 (0.660)
Rule of Law Index				0.047 (0.050)	0.030 (0.103)	0.120 (0.387)
Business Regulation Index				0.009 (0.044)	-0.011 (0.061)	-0.061 (0.192)
Corruption Perception Index				0.001 (0.005)	0.002 (0.008)	0.038 (0.029)
Per capita GDP (\$k)	0.015 (0.010)	0.004 (0.006)	0.020*** (0.006)	0.013* (0.007)	-0.005 (0.010)	-0.038 (0.034)
Per capita GDP (\$100k) squared	-1.275 (0.996)	-0.386 (0.626)	-1.560** (0.675)	-1.196* (0.714)	0.356 (0.848)	1.676 (3.064)
Log population	0.044 (0.049)	-0.032* (0.019)	0.049* (0.027)	0.053** (0.025)	-0.068 (0.059)	-0.145 (0.173)
Region FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	85	162	133	145	82	82
Adjusted R^2	0.308	0.386	0.320	0.337	0.422	0.617

- Authors conclude “taken together, these results suggest there are not particularly strong political economy issues around OB adoption.”

What economic frictions do open banking helps mitigate?

- ▶ Not necessarily bad for identification
- ▶ But it does leave us with a puzzle
- ▶ Open banking as an economic regulation is not necessarily driven by political economy concerns; a social planner may well introduce it to correct economic inefficiencies

What economic frictions do open banking helps mitigate?

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- ▶ Open banking as an economic regulation is not necessarily driven by political economy concerns; a social planner may well introduce it to correct economic inefficiencies
- ▶ Open banking helps solve the well-known “hold-up” problem from banking relationships (Rajan, 1992), because relationships are essentially about data and open banking is essentially data sharing
- ▶ Proxies for how severe the hold-up problem is, e.g., markup and HHI of banking sector?

Consequences

Paper mainly focuses on the “bright” side of open banking

- ▶ Table 3: open banking leads to better “consumer data access”

	Banks with APIs			% of top 10 banks with APIs		
	(1)	(2)	(3)	(4)	(5)	(6)
Open banking implemented (0/1)	0.648*** (0.226)		-0.334 (0.299)	0.190*** (0.071)		-0.013 (0.062)
Open banking implementation (0-7)		0.201*** (0.043)			0.052*** (0.013)	
OB Strength Index X OB implemented			1.131*** (0.368)			0.233*** (0.089)
Per capita GDP (\$k)	0.039*** (0.013)	0.025** (0.012)	0.035*** (0.012)	0.005 (0.003)	0.002 (0.003)	0.004 (0.004)
Per capita GDP (\$100k) squared	-1.516 (1.685)	-0.273 (1.509)	-1.217 (1.605)	-0.138 (0.451)	0.149 (0.407)	-0.077 (0.441)
Log population	0.291*** (0.049)	0.265*** (0.047)	0.287*** (0.049)	0.046*** (0.014)	0.040*** (0.013)	0.045*** (0.014)
Region FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	157	157	157	157	157	157
Adjusted R^2	0.629	0.672	0.645	0.488	0.531	0.500

- ▶ Direct and strong results, but why not diff-in-diff?

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- ▶ Table 4: open banking leads to more “FinTech entry”

	Fintech VC deals			Fintech VC dollars		
	(1)	(2)	(3)	(4)	(5)	(6)
After OB initiative	0.214*	0.532***	0.363**	0.746**	1.305**	1.104**
	(0.111)	(0.160)	(0.156)	(0.267)	(0.474)	(0.432)
Non-fintech VC deals			0.475***			
			(0.135)			
Non-fintech VC dollars						0.292**
						(0.095)
Country FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes			Yes		
Region-Year FE		Yes	Yes		Yes	Yes
Observations	231	231	231	231	231	231
Adjusted R^2	0.919	0.929	0.936	0.877	0.895	0.898

- ▶ Cool idea, but I’m not completely sure about the interpretation

What do VC investments in FinTech really capture?

- ▶ A priori, VC cares about investment profitability, but it's unclear why open banking may necessarily increase FinTech profitability
 1. Open banking proposals are mostly customer-oriented
 2. FinTech players may get better data access but may not necessarily enjoy higher profitability in general equilibrium (more on this later)
- ▶ VC investments also reflect cycles and investor sentiments (Gompers and Lerner 2004)

- ▶ More direct measures of FinTech entry?

What do VC investments in FinTech really capture?

- ▶ Open banking presumably allows data sharing between *any* lender
- ▶ We can talk about open banking without touching FinTech at all!
- ▶ Go beyond FinTech? Small, regional, and community banks?

The “dark” side of open banking?

- ▶ Open banking may lead to unintended bad consequences due to endogenous bank responses and strategic customer behaviors
 - ▶ Parlour, Rajan and Zhu (2022): open banking disrupts information spillover between bank lending and payment service and thus hurts bank-dependent customers
 - ▶ Goldstein, Huang, and Yang (2022): open banking exacerbates winner’s curse in terms of depositor funding and monitoring and leads to inefficient bank investments
 - ▶ He, Huang, and Zhou (2022): open banking may over-empower FinTech lenders, potentially hurting all borrowers
- ▶ After all, we can’t get rid of traditional banks!
- ▶ What’s exciting are the rich [welfare implications](#): winners and losers?
- ▶ Current structural framework as an interesting first step, but I would love to see more direct evidence in the data

Conclusion

- ▶ Important paper on open banking; incredible data initiatives
- ▶ Presents many interesting facts but could benefit from a sharper focus to deliver more cohesive economic messages
- ▶ In the spirit of open banking, I encourage the authors to keep developing the datasets and potentially make them publicly available at some point as an “open” public good; the returns to our profession are long-term and convex