

**FINANCIAL INTERMEDIATION AND  
TECHNOLOGY:  
WHAT'S OLD, WHAT'S NEW?  
BOOT, HOFFMANN, LEAVEN AND RATNOVSKI**

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Changing more than a name

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# THIS PAPER

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- Differentiates between information and communication innovations in finance over past years: more use of hard information and less use of personal interaction
- Discusses implications for the future of banks and regulation: emergence of specialized financial service providers and rising role of platform companies
- Thought-provoking and well argued
- Part of a larger exercise in profession (and central banks/regulators) to understand implication of financial innovation for stability
- Highly recommend to read

# INFORMATION VS. COMMUNICATION

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- What is financial innovation?
  - New products/services, new processes, new delivery channels, new providers
  - This paper focuses on information (data collection and processing; new processes?) and communication (relationships and distribution; new delivery channels?)
- Can information/communication be seen separately? Maybe not
  - Exhibit A: Relationship lending relies on repeated interaction between bank and client to collect soft information
  - Exhibit B: Berg et al. (2020): on-line consumer durable good seller using Internet behaviour (digital footprint) to predict default likelihood
  - Exhibit C: bigtech companies connect market participants on-line, collect data on (potential) customers, artificial intelligence/machine learning allows them to process data into credit scores and offer targeted service

# BIG DATA RULE?

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- Important difference in views: rational (credit constraints) vs. behavioural (myopic, literacy)
  - Rational view: more data allows more inclusion, lower costs allow more outreach
  - Behavioural view: more data allow price discrimination and targeted shrouding (more important in finance, given intertemporal nature of contracts), e.g. Ru and Schoar (2017)
  - Does better data availability also give an advantage to BigTechs?
  - Who owns data and who should own them? Jones and Tonetti (2020)
- Off to the corner – give up on the softies? NO
  - Relationship vs. transaction-based lending during the crisis (Bolton et al., 2017; Beck et al., 2018)
  - Have you talked to your banker recently?
  - Looking for customer service – or rather the police? Example N26
  - Differentiation in lending products/techniques: standardized (consumer, mortgage, trade) and “personalized” (corporate, project)

# FUTURE OF BANKING

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- Disintegration of banking services:
  - Payment service providers – banks keep money creation privilege
  - P2P lending platforms: verdict still outstanding (but not positive in China)
- Bigtech and banking
  - Winner takes all in a world of network externalities – rise of new systemically important institutions?
  - Frequent disruption in the platform economy – what happens in transition? Risk of runs?
  - Platforms as conduits – over-lending incentives
- Additional challenge: Central Bank issued cryptocurrencies can undermine money creating role of banks

# REGULATORY IMPLICATIONS

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- Efficiency vs. privacy and efficiency vs. integrity trade-offs
- Regulatory perimeter
- New sources of cyber risks
- Consolidated supervision – spill-over risks within platform companies
- Supervisory cooperation (stability, competition, privacy)
- Cross-border dimension – platforms are not national firms

# IN SUMMARY

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- Financial innovation: Future of banks vs. future of banking
- What is a bank? Changes over time, to be continued
- Quintessence of financial intermediation still to be undertaken (maturity/liquidity transformation), question is on the form!
- From financialisation of the modern market economy to digitalisation and unpacking of modern finance
- ....may we live in interesting times!

# THANK YOU

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