FinTech Platforms and Mutual Fund Distribution

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June 2, 2021 at ABFER

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The Rise of Technological Platforms

- Empowered by technological innovations, platforms have disrupted their respective industries, and transform the way we live.
  - ▸ Google for information.
  - ▸ amazon for retail goods.
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- In this paper, we ask the following questions:
  - ▸ What happens when platforms are allowed to intermediate financial products?
  - ▸ What are the economic consequences, *both intended and unintended,* on investors and the market?

FinTech Platforms Distribution of Mutual Fund in China

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- Due to these advantages, platforms grew quickly into a formidable presence. By end of 2018, it is estimated that platforms capture about one third of the indirect sales of funds in China.

, etc.

Mobile App of Alipay (Ant Financial/Group)
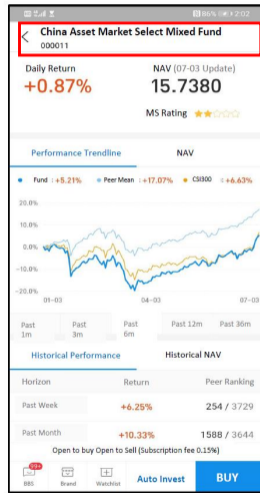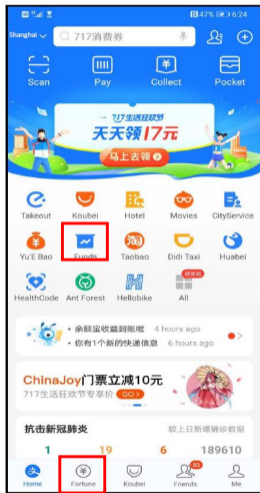
Preview of Results

- We find a striking increase in flow-performance sensitivity associated with the emergence of platforms. (A winner-take-all effect)

- We provide evidence suggesting that the information display on these platforms leads to the amplified performance chasing in the market.

- We examine the consequence of the emergence of platforms:

  - ▶ Fund managers: increase risk taking to enhance the probability of becoming top performers.

  - ▶ Fund families: the organizational structure of large fund families weakens as platforms level the playing field for all funds.

Data and Key Variables

Our sample: actively-managed equity, mixed, and bond funds from 2008 through 2018.

- **Performance Deciles:** Each quarter, funds within each style (equity, mixed, and bond) are sorted by their past-12 month raw returns into deciles. Decile 10 contains the top performers.

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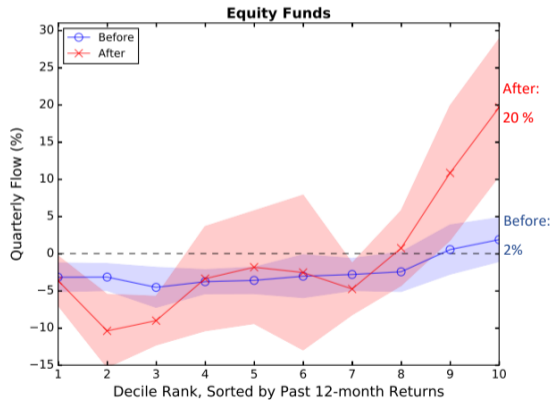where R_t^i is the quarter-t return of fund i and TNA_t^i is its total net asset value.

- **Fund Entrance Date:** The dates when each fund enters each platform.

Funds' Swift Entrance onto Platforms
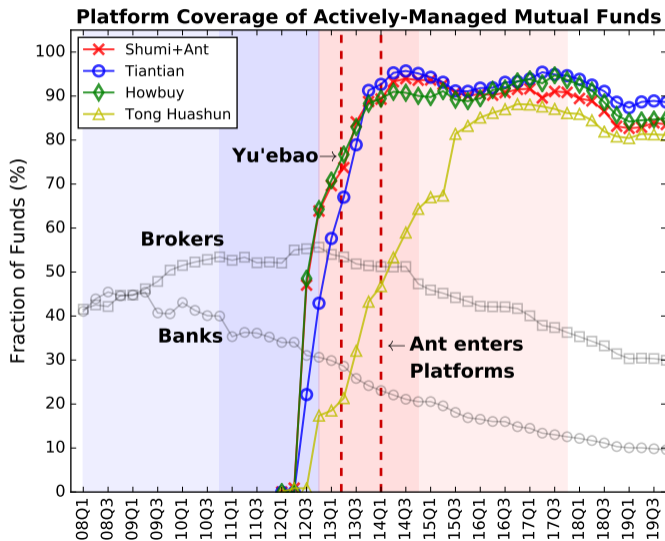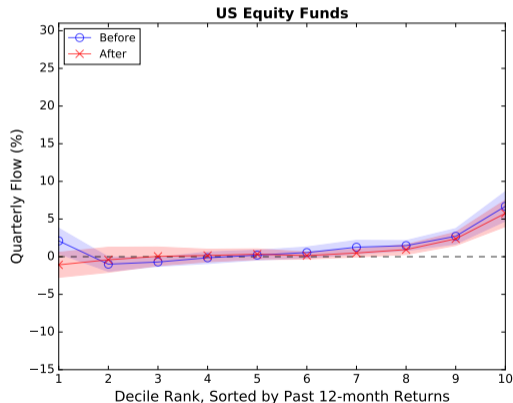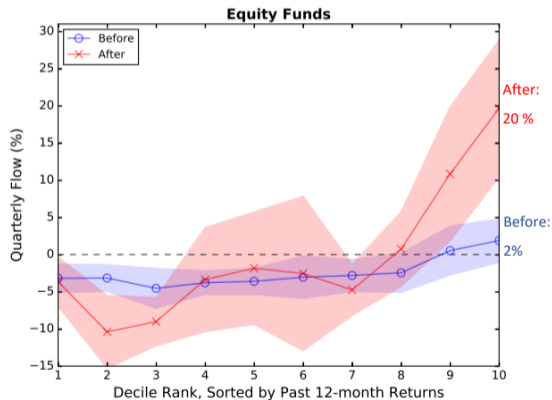

Platform Coverage of Actively-Managed Mutual Funds

Amplified Performance Chasing: Before and After Policy Change

Before: 2008–2012; After: 2013–2017

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Amplified Performance Chasing: Staggered Fund Entrance onto Platforms

$$\text{Flow}_t^i = a + b\,\text{Decile10}_{t-1}^i + c\,\text{Decile10}_{t-1}^i \times \text{Platform}_t^i + d\,\text{Platform}_t^i + \text{Controls} + \epsilon_t^i \quad (1)$$

$\text{Platform}_t^i = 1$ if fund i is covered by both Ant Financial and Tiantian in quarter t.

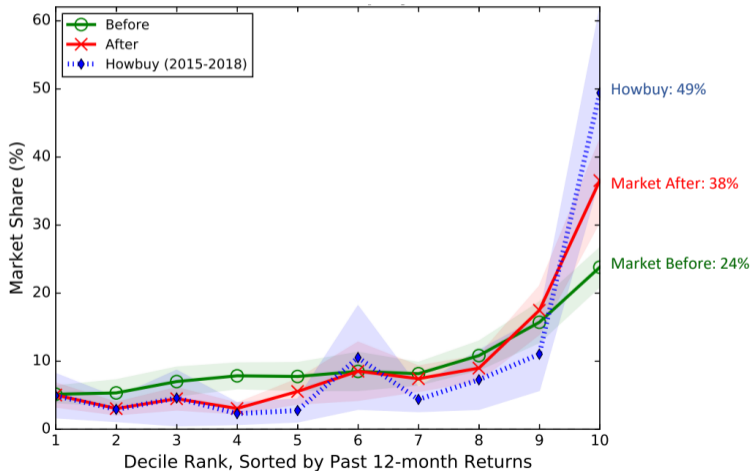# Amplified Performance Chasing: Staggered Fund Entrance onto Platforms

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	Equity	Mixed	Bond	All
Decile10	6.985***	6.127***	14.383***	8.132***
	(6.03)	(4.71)	(4.79)	(8.32)
Decile10×Platform	16.964***	11.399***	-5.101	7.966***
	(3.75)	(5.34)	(-1.26)	(4.72)
Platform	-3.097	1.759	1.432	-0.702
	(-1.07)	(1.29)	(0.67)	(-0.63)
Controls, Time FE	Y	Y	Y	Y
Observations	6,705	12,941	6,766	26,412
R-squared	0.079	0.065	0.123	0.066

Direct Evidence from Howbuy

Howbuy> Market After> Market Before

(platforms>traditional+platforms>traditional only)

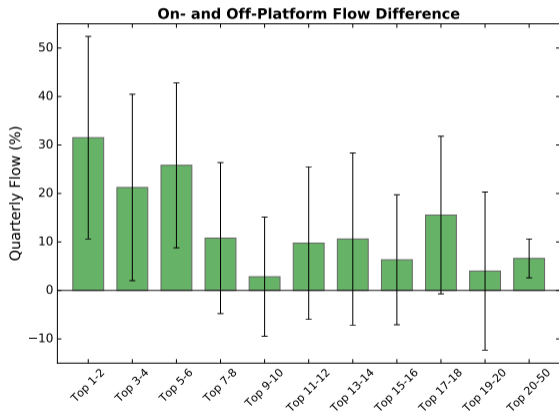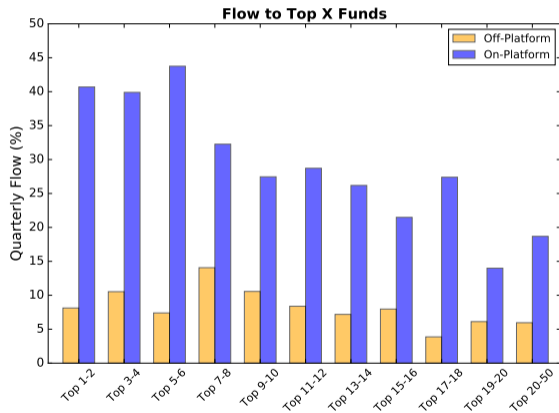# Information Display: Identical List of Front-Page Funds across Platforms

Information Display Channel: Top X Funds

Fund Managers: Increased Risk Taking after Platform Entrance

Before vs. After, Equity Funds

Before vs. After, Mixed Funds
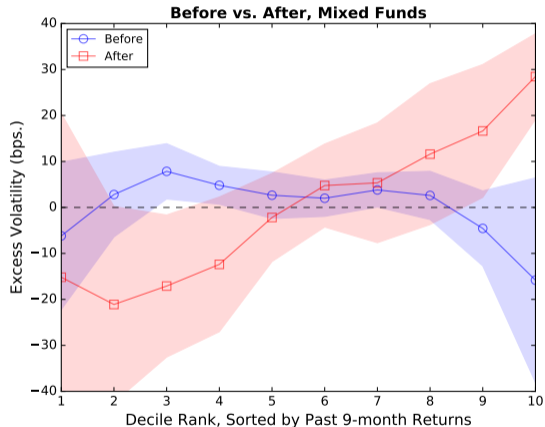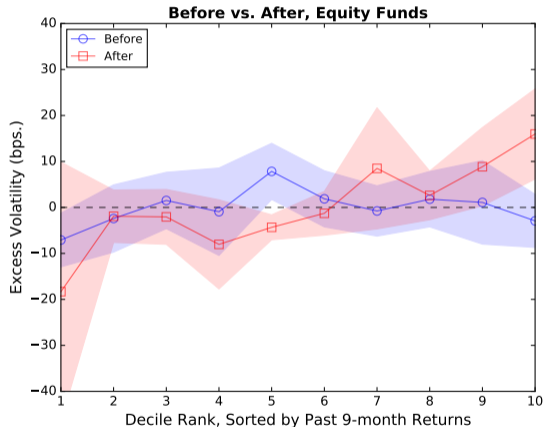
Fund Managers: Increased Risk Taking after Platform Entrance

	Total Vol		Systematic Vol		Idiosyncratic Vol	
Platform	7.091*	6.068	6.425*	5.264	2.815**	2.583**
	(1.80)	(1.64)	(1.70)	(1.47)	(2.15)	(2.10)
Top 10×Platform		12.017*		15.767**		-0.714
		(1.87)		(2.48)		(-0.19)
Top 11-20×Platform		13.135**		15.885**		3.24
		(2.11)		(2.57)		(1.23)
Top 21-50×Platform		11.124**		11.373**		2.99
		(2.25)		(2.50)		(1.31)
Top 10		7.074*		4.335		6.147***
		(1.85)		(1.29)		(3.05)
Top 11-20		5.144**		1.08		3.615***
		(2.69)		(0.69)		(3.08)
Top 21-50		4.541***		2.572*		3.876***
		(2.83)		(1.87)		(4.66)
Controls, Time FE, Fund FE	Y	Y	Y	Y	Y	Y
Observations	42,407	42,407	40,604	40,604	40,604	40,604
R-squared	0.815	0.817	0.808	0.81	0.762	0.764

Fund Families: Weakened Organization Structure

- Pre platforms, large fund families serve as mini-platforms.
- Post platforms, large fund families lose their cohesiveness.
- We find that, after funds enter platforms,
  - Funds' ranking within the family becomes less important in attracting flows.
  - The co-movement of fund flows weakens within family.
  - The incentive for fund family to groom star funds drops.

Conclusions

FinTech platforms, as a new type of distribution channel, can have a direct and important impact on investor behavior. The experience in China offers a glimpse into the future:

- The winner-take-all effect is overwhelmingly strong.
- A large disruption to the landscape of the mutual fund industry.
- Simplified information display: a common concern across a variety of FinTech platforms. See Barber et al. (2020) on stock trading through Robinhood; Liao et al. (2020) on mobile interface for P2P lending, etc.
  - ▸ Tech-firms, equipped with superior customer data and advanced analytical technology, have a comparative advantage in providing customized advice.