# Comments on
# "FinTech as a Financial Liberator"
# by Buchak, Hu and Wei

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# The question

- The paper examines an alternate pathway for financial liberalization in the context of China: bottom-up liberalization driven by financial innovation outside the repressive regulatory framework.
  - Fintech, i.e., the money market fund *Yu'ebao*, helps remove deposit ceiling regulation in the banking sector

# Main findings

- FinTech payment + market interest rates: competition against bank deposits
    - Slower growth of bank deposits and more flows into FinTech funds
- FinTech competition induces banks to offer market-rate deposit substitute
    - Banks also introduce similar products; limited implication for banks' finance
- FinTech as a financial liberator
    - Bottom-up financial liberalization; more market interest rates for households

# General impression

- A very insightful and enlightening paper with a very powerful message: Fintech could be an important force of “bottom-up” financial liberalization
- Many of the shadow banking businesses in China, such as wealth management products and trusted loans, have the same feature of “bypassing” both regulatory and repressive policies
    - “Doing the right thing with wrong method” (former CSRC Chairman Xiao Gang)
- Main takeaways from this study:
    - Market always works (curb market and shadow banking)
    - Technology makes a big difference (coverage, size and speed)
    - Traditional institutions do respond to market competition (more products, higher interest rates)

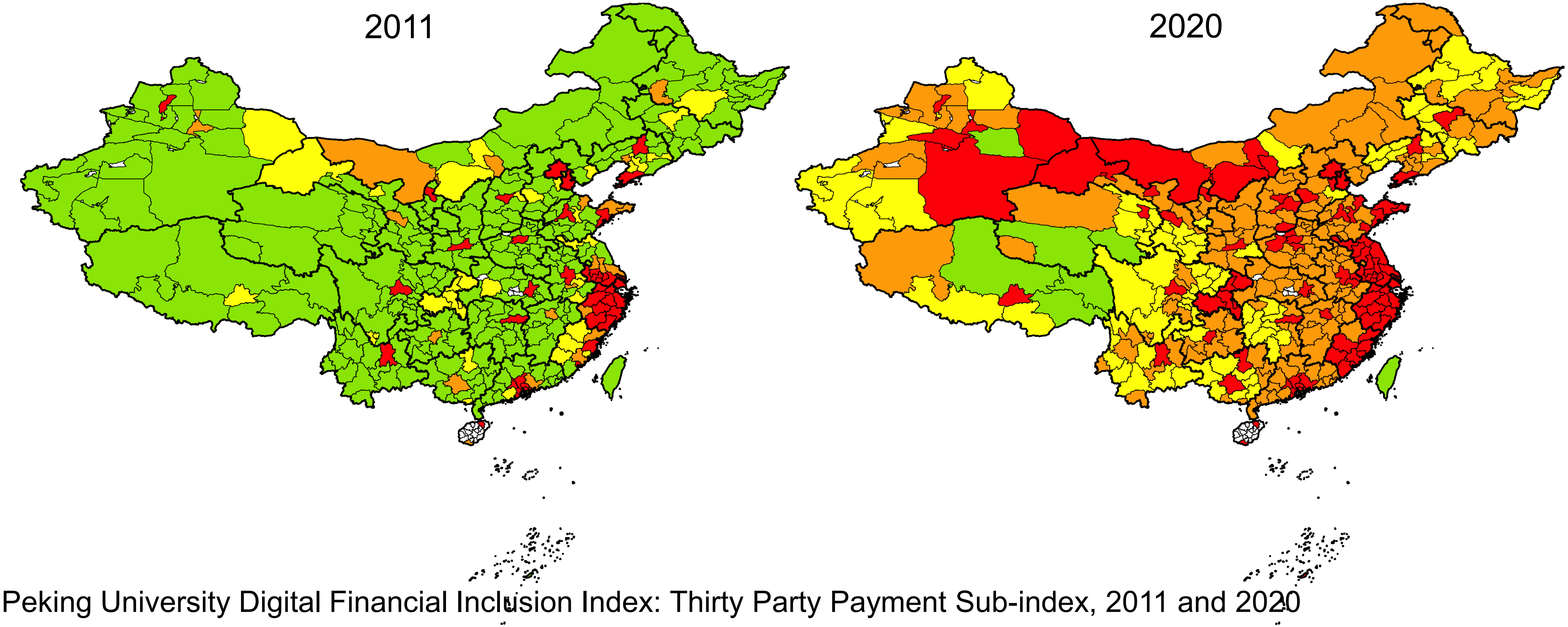
# Why low deposit rate: Background

- Low (real) interest rates are often important signs of financial repression (McKinnon)
- Low grain price under the Unified Purchase and Marketing System was effectively an agricultural tax (Song Guoqing)
- Low deposit rates in China during the reform period are also effective taxes on households, subsidizing borrowers, especially the SOEs
- The government has been reluctant to let go deposit rate regulation
  - To facilitate low lending rates, not just for large SOEs but also for SMEs
  - To create profits for the banks to absorb (policy-induced) NPL problems
  - To avoid financial instability caused by excessive competition for deposits

Farmers selling grain to the State Grain Department under the Unified Purchase and Market System (统购统销)

# Question 1. The IV

Distance from Hangzhou: Distance is often a good IV for traditional financial service as it proxies transaction costs. In FinTech, however, distance becomes much less important.




Peking University Digital Financial Inclusion Index: Thirty Party Payment Sub-index, 2011 and 2020

# Question 2. FinTech vs bank

- The question of “complement or substitute” could actually be quite complicated
- For instance, the bank loans and the Bigtech credit look like competing with each other in offering lending to individual and enterprises. They actually provide very different types of loans
    - Bigtech credit are quite small in size and short in duration and are mostly for unbanked customers. They complement, instead of competing with, bank lending (Gambcorta et al. 2020)
- In this case, *Yu’ebao* competes with banks for funds (deposits). But the products they provide are not necessarily substitutes (even if they are both money market funds)

# Question 3. Role of the regulation

- Why didn’t the banks actively offer MMFs before 2013?
  - The paper offers many credible reasons (such as high NIMs)
  - The regulation did not allow or did not encourage such funds
  - *Yu’ebao* was an “outsider” equipped with technology (long tail and user experience)
- This relates to the finding of no material financial impact on banks
  - It could be because banks responded effectively…
  - …or because the regulators limited expansion of FinTech

# Final remarks

- I like the paper: important question, smart implementation and impressive efforts compiling data
- The story line is straightforward and powerful: *Yu'ebao* → effective interest rate liberalization → bank innovation
- FinTech and shadow banking development suggest that interest rate liberalization should not be delayed much further
- Whether or not this *Yu'ebao* development cause no concern for financial stability needs more thorough assessment
    - Expansion of *Yu'ebao* business was effectively limited by the authorities
    - In recent years, banks' WMPs are an important source of financial risks