What drives the expansion of peer-to-peer lending? (Havrylchyk, Mariotto, Rahim, Verdier)

Discussion by M. Rimarchi (EBA)*

5th EBA Research workshop – London – November 2016

* Opinions expressed here are personal and do not reflect those of the EBA

THE PAPER IN 2 SLIDES (1/2)

- **Objective 1:** determine whether the expansion of P2P lending is driven by:
  - The weakness of local banks — *financial crisis driver*
  - Market structure — *competition driver*
  - Access to the internet — *technology driver*
- **Objective 2:** determine whether the expansion of P2P is subject to a spatial correlation effect (more P2P in neighbouring areas)
- **Objective 3:** investigate the socio-economic drivers of P2P lending expansion
- **Methodology:** relies on volume/transaction data from Prosper and Lending Club on the cross-section of (more than 3000) US counties, taken as units of local financial market. Econometrics: Spatial Autoregressive Model (with MLE)

THE PAPER IN 2 SLIDES (2/2)

➢ **Results:** P2P lending expansion is higher where:

▪ Higher education, lower poverty	*switching to technology is less costly*
▪ Higher share of Black/Hispanic	*online lending does not discriminate as much as..*
▪ Lower branch penetration / lower bank concentration	*brand loyalty is a barrier*

- (!) Access to technology does not play a role
- (!) Local banks' 'health' does not play role

COMMENTS – GENERAL COMMENTS

Extremely interesting exercise contributing to a better understanding of peer-to-peer lending, one of the main *FinTech* innovations in recent times.

EBA interest/role in *FinTech* is enshrined in founding regulation

- **Art 9: tasks related to consumer protection and financial activities**

'establish a committee on financial innovation […] monitor new and existing activities […] collect and analyse consumer trends […] adopt guidelines and recommendations […] promoting safety and soundness of markets and convergence of regulatory practices […] issue warnings […] temporarily prohibit or restrict certain financial activities'

1 warning and 2 opinions on virtual currencies

1 opinion on crowdfunding

- **Art 22: systemic risk**

'address any risk of disruption in financial services'

Mandates under revised Payment Services Directive (PSD2)

COMMENTS – SPECIFIC COMMENTS

- **Is there room for exploring the 'bank alternative' within the cross-section of counties, beyond the bank ratios analysis already performed?**

- **Collateral:** the platforms cover unsecured lending (majority of which is debt consolidation). Do borrowers go to the platforms where debt consolidation via mortgage debt is not an option? → see US FHFA Zip-code level house price index (HPI)
- **Bank lending standards:** is there any county-level or local measure of lending standards? Are bank **loan approval rates** available at branch level?
- **Borrower creditworthiness assessment:**
  - In the paper: higher share of Black and Hispanic minorities foster P2P lending;
  - US Consumer Protection Bureau (2015): *Black and Hispanic consumers are far more likely to be credit invisible or have unscored credit records (from major NCRAs operating in the US)*
  - *No discrimination or laxer credit history requirements? Is there a measure of credit scores penetration at county level?*

THANK YOU

EUROPEAN BANKING AUTHORITY

Floor 46, One Canada Square, London E14 5AA

Tel: +44 207 382 1776
Fax: +44 207 382 1771

E-mail: info@eba.europa.eu
http://www.eba.europa.eu