Discussion of:
FinTech Credit and Service Quality
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This Paper

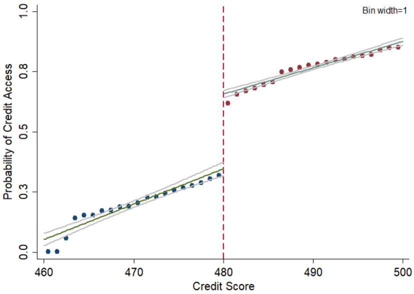
Effect of credit access on the service quality of small businesses

- **Service quality**
  - Data from Alibaba's largest retail small business platform
  - 1.7m active merchants from Nov14 to Jun15
- **Identification**
  - Credit provided by Ant Financial, large fintech company
  - Use of proprietary scoring mode + cutoff rule

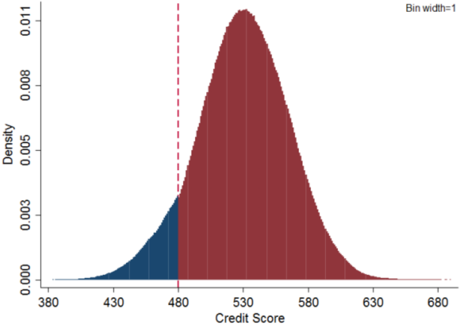
  ⇒ Fuzzy RD design
- **Small businesses**
  - Very small firms, unlikely (show this!) to get bank financing

Fuzzy RD Design

- Merchants screened for eligibility based criteria, e.g. in business for $\geq$ 3 mo., limited sales volatility, no history of misconduct
- Ant Financial proprietary credit scoring model
  - Credit score is a continuous function of firm characteristics
  - Each score corresponds to a certain level of credit risk
  - Range [380,680], regularly updated
  - Firm > 480 has a 30% higher prob. of getting a credit line

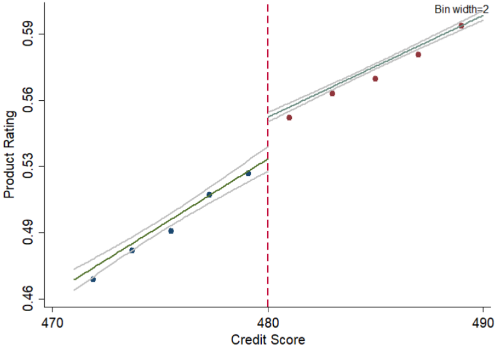


Firms Don't Optimize Around the Cutoff



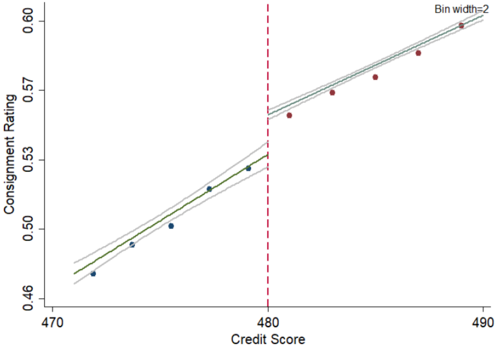
- Density around the 480 cutoff is balanced
- Ant Financial does not inform firms of their credit scores nor share the specific algorithms governing the score
- Credit score is a continuous function of firm characteristics, so these characteristics do not jump around the cutoff (**show this!**)

#1 Effect on Product Rating



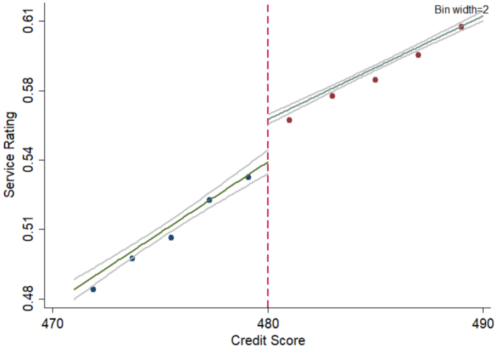
- Avg service rating from 0.54 to 0.56
- Significant, based on quadratic line with 95% c.i.
- Access to credit leads to +0.05 in the [0,1] product quality rating
- But regressions are based on interval [460,500]

#2 Effect on Consigment Rating



- Access to credit leads to +0.05 in the [0,1] consignment rating (timeliness of shipping and proper handling of the consignment)

#3 Effect on Service Rating



- Access to credit leads to +0.05 in the [0,1] service rating (communication efficiency b/w the salesperson and customers)

Convincing Identification, Unclear Economics

- **Convincing identification and empirical work**
  - Score updated monthly, but "usually stable": more details on firms that are both treatment and control over time
  - LHS variables measured at $t+1$ (table 10 goes till $t+3$), but investment in quality might take some time

- **Why focus on *quality*?**
  - Motivatied using marketing literature
    "Under the new business model that centers on customers, attracting initial sales and boosting immediate profits may no longer be the prioritized goals; instead, firms may find it optimal to invest in service quality"
  - Just another type of (non-pledgeable) investment?
  - Is it positive NPV? Check ex-post performance

Big Data and Fintech Credit to Micro Firms

- **Ant Financial**
  - Most valuable fintech firm in the world (valued $150bn)
  - Fintech arm of **Alibaba**
    - 10m active sellers and 454m active buyers per year
    - 97% of the merchants employ less than 5 workers
- **Data Used by Ant Financial** (including Alibaba's data!)
  - "user credit history, behavioral preferences, identity characteristics, social connections, credit card payments, online shopping payments, wealth management, utility payments, house rental information, relocation records, and social relationships." (www.antfin.com)
  - Loans takes 4 minutes to be approved.
- **Is Ant Financial Better than a Bank?**
  - Better data, better screening technology, less regulated
  - Unclear incentives if merchant is in distress (Alibaba provides credit to merchant that sell... through Alibaba)

Heterogeneous Responses of Firms

***Very* speculative discussion of heterogeneous responses of firms**

1) **Effects are stronger in competitive industries**
    - "If fintech credit credit helps relax the financial constraints of online merchants, the effect should be larger in industries where competition is more intensive"
    - "As competition lowers profit margins for firms, they experience negative liquidity shocks and may be less incentivized to invest in product and service quality"
    - But competition might force firns to provide good quality

2) **Similar effects in areas with high Vs. low bank penetration**
    - "FinTech credit plays more of a supplementary than substitutional role to the traditional lending market"
    - "It serves the clients that are nevertheless not optimal for banks to provide services for"
    - Why are these projects/firms not "optimal" for banks?

Overall

- Careful execution and identification
- Fascinating empirical setting
- Potential to shed light on the future architecture the credit markets... another paper?