Bank and non bank competition

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Bank and non-bank competition

- Banks not only compete between themselves
- They compete with other players such as
  - Bond market: direct market finance
  - Venture capitalists
  - Shadow banks
  - Fintechs
  - Bigtechs
  - etc
- Each player has different characteristics
  - Each case is in principle different
  - Depends on what is the main difference across agents
  - E.g Holmström and Tirole (monitoring vs no monitoring)

Bank and non bank competition

- Recent developments have changed the nature of bank and non bank competition
  - Increase in internet based economy - not so new -
  - Increase in computational processing power
  - Increase in data availabilty (or processing capability)
  - New payment methods (e.g. mobile based)
- This changes have a potential to affect banks and non banks
  - By altering the way banks do their business
  - Also because non banks now have "changed" and they are different competitors

Bank and non bank competition

- The relevance of non banks can be very important
  - Mortgage lending (57% of originations non banks)
  - Syndicated loan lending
  - Some payment services
- Hence understanding how they affect the financial market is relevant
  - It has a direct effect - what they do -
  - Also indirect - how do banks react -

Bank and (new) non-bank competition

- Review of situation in Vives (2019) and Berg (2021)
  - Focus on competition with new competitors
  - Mainly how screening technologies are different and affected
- Vives and Ye (2024) - 2 papers -
- Build closely to previous model on bank screening and info acquisition
  - Hauswald and Marquez (2003,2010)
  - Screening technologies exhibit strategic interactions
  - Higher screening by bank A affects bank B
  - As it is more probable that a rejected loan from bank A is a bad loan!
  - Bank B internalizes it and reacts by lending less (or at higher rates)

Parlour Rajan and Zhu (2022)

- "When fintechs compete for payment flows"
- Banks use payment information in their screening processes
  - Fintech compete with banks for payment services
- Some consumer might prefer to go to fintech
  - Heterogenous bank related tastes
- Banks react to fintech payment competiton
  - by incresing or decreasing prices of payment services
  - Depends on distribuition of preferences of costumers
- This affects the quality of screening in non monotic ways
- Discuss how selling information from fintech to bank can improve outcomes

He, Huang Zhu (2023)

- "Open banking: Credit market competition when borrowers own the data"
- Study the effects of open banking
  - Sharing of info between banks and fintechs
  - Borrower can signup and share their data
- Banks have private info about consumers
  - Allows them to better screen borrowers
- Fintechs are better at processing data
  - But have less data
- Open banking allows fintechs to access data of borrowers
  - This enhances screening as fintechs are asumed to be better
  - But can make borrowers worse off as it lower competition from banks

Regulation as a determinant

- Regulation as a determinant of who lends to whom
    - Banks fund themselves cheaper: deposit insurance
    - Have to have capital requirements: more expensive
    - Exact type of capital regulation affects structure of the system
    - Affects equilibrium risk of each loan (monitoring decisions)
    - Martinez-Miera and Repullo (2024)
    - Flat versus risk based capital regulation