

Comments on Estrada/Zamora „P2P Lending and Screening Incentives“

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A strong paper

- Tackling an empirical issue of significant policy relevance
- Addressing the question of what makes P2PPs special
- Modeling of (more than one!) scenarios
- Adding words of caution

Issues for debate I

Cost advantage of P2PPs over banks?

-Due to P2PP's lower operating expenses? (p. 3)

Neglects banks' potential economies of scope and scale (e.g. proprietary information on account customers used in loan application screening, shared staff and infrastructure across business areas) and possible cost advantage in some areas (seizing of collateral instead of costly loan collection).

-Due to regulatory burden for banks after crisis? (p.4)

If yes, regulatory arbitrage won't last, pressure for level playing field imminent.

-Transparency, cost vs. pricing

Banking is full of opaque cross-subsidies among business units. Could P2PP business models involve cross-subsidization, e.g. selling personal information?

Data on alleged P2PP cost advantages (Fig.5) is sourced from marketing material by a P2PP. Can we trust it?

Issues for debate II

Banks: Cost or legitimacy crisis?

-Established reputation of banks vs. improved screening of P2PPs? (p.11)

Recent growth of P2PP maybe not due to quality but new entrants' legitimacy bonus (crisis has hurt banks' reputation, triggered demand for alternatives), prone to exploitation in misleading marketing. Screening quality untested yet.

-Fixed capacity of banks vs. flexibility of P2PPs? (p.9)

On the contrary: Banks are credit creators able to refinance in money markets. P2PPs are mere intermediaries of preexisting funds.

Welfare properties: Financial inclusion? (p.9)

Before the crisis: subprime lending as „financial inclusion“ and banks behaving as P2PPs via securitization, ultimately ending in huge crisis.

Issues for debate III

Modelling assumptions:

-Bank is a monopolist in the loan market, but a price taker in deposit market? (p.12)

Banks actively manage both sides of their balance sheet.

-Diseconomies of scale with rising number of loan applications for banks? (p.13)

Economies of scale at least equally plausible.

-Banking sector modelled as a monopoly, with competition first introduced by P2PPs?

Not very plausible for many economies.