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Credit Market Competition When Borrowers Own the Data

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- Many practitioners expect Open Banking (OB) to change the competitive landscape of the financial services industry
- Open banking: Regulatory initiatives that allow third parties access to customer transaction accounts (upon customer approval)

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  1) Milgrom (1981) implies that voluntary information sharing (open banking) is effectively not "voluntary" because of adverse inference
  2) Hauswald and Marquez (2003) study the effects of changes in lenders' screening technologies on credit market equilibria

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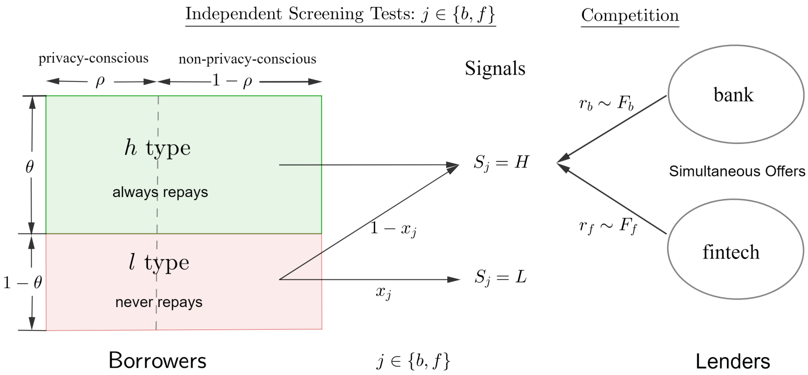
- Asymmetric lenders
  - strong lender (Pre OB: Bank, Post OB: Fintech)
  - weak lender (Pre OB: Fintech, Post OB: Bank)

Model Overview



Before open banking: $x_f < x_b$

After open banking, on a borrower who signs up: $x'_f > x_b$

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  - If weak lender does not make an offer, the strong lender sometimes faces no competition ($\Rightarrow$ optimally charges higher interest rate)
  - Makes it possible for the weak lender to sometimes undercut the strong lender (and still make a profit) just enough to offset the winner's curse loss when facing a low-type borrower

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- All results of the model can be understood by the interplay of the (1) strategic and 2) information effect

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  Because of adverse inference, unraveling à la Milgrom (1981)
  Equilibrium with mandatory sharing = Equil. with voluntary sharing

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  - Is effect of OB conceptually the same, but simply "large" change? (recall that *voluntary* nature of disclosure is not so important)

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- My preference: Highlight robust mechanism (information & strategic effect) rather than selecting non-obvious results

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  - Fintech: One can only train models with transaction data only **after** attracting a large number of consumers to share data (implications to generate scale as a precondition for future competitiveness)

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  - banks should be more regulated (see Harris, Opp, Opp, 2030)

Conclusion

- Well-written paper on an important topic
- Paper highlights relevant trade-offs, maybe adjust overall message
- Integrate novel, specific features of Open Banking
  (because literature on credit market competition is "crowded")