Banks and the Fintech Narrative: Evidence from a Natural Field Experiment

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Discussion by

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Summary

- Question
  - How does the fintech narrative affect bank disclosures?
- Approach
  - Estimate the disclosure of fintech risk in 10-K
  - Implement a field experiment addressing fintech risk
- Key Results
  - Few banks disclosed fintech risk in 10-K's early on
  - Field experiment increased disclosure by 50%
- Comments
  - Baseline premise
  - Alternative Channels
  - Extensions

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- **Alternative premise**: Fintech risk was not relevant to non-disclosing banks
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    $\Rightarrow$Buchak et al. (2018), Fuster et al. (2019), Jagtiani, Lambie-Hanson & Lambie-Hanson (2021)
  - Banks collaborate with fintech firms to facilitate financing across state lines

    $\Rightarrow$Elliehausen & Hannon (2023), Flagg & Hannon (2023)
  - Banks finance competitors through credit lines

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  - Banks finance competitors through credit lines
    ⇒Jiang (2023)
- **Suggestion**: Explore geographic exposure to fintech across pre-treatment disclosure
  ⇒ Do non-disclosing banks see limited local competition?

Alternative Channels

- **Primary Channel**: Banks begin to disclose due to nudge

Did your bank consider mentioning the factors underlined above as business risks or competitive threats?

Why or why not?

Do these threats, in the bank's view, currently warrant such a mention? Why or why not?

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  - **Suggestion**: Estimate treatment effect on other risk categories

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- **Suggested Second Stage**: Do banks change lending behavior following fintech disclosure?
  - Macroeconomic Level: Estimate firm level changes using Bank Call Reports
  - Local Level: Estimate changes in local lending conditions using HMDA & CRA data
    - Variation in Outcomes: Do banks restrict mortgage lending more than small business credit?
    - Variation in Treatment Effects: Does the treatment effect vary with bank's fintech exposure?
  - Cross-Sectional: Are there spillovers to other banks?

Conclusion

- Very clever field experiment indicating change in disclosure activity
- Paper could improve with more robust assumptions
- Useful to explore implications of main results