

Discussion of: Economics of Voluntary Information Sharing

Raoul Minetti

Michigan State University

Chicago Financial Institutions Conference, April 2018

- The economics of lenders' information sharing
 - ① Does degree of credit market competition affect information sharing (credit bureau entry) decisions?
 - ② How does banks' lending respond to expansion in credit bureau coverage? Do banks leverage on their expertise?
- Empirical setting: data from large credit bureau serving equipment finance industry (PayNet)
- Data on (staggered) entry of lenders into the bureau in 2001-2014; data on contracts, by collateral type; lender characteristics

- Construct measures (HHI) of concentration of credit market by region/collateral

$$Time_to_Entry_{it} = \gamma_t + \alpha_1 HHI_{i,home} + \alpha_2 HHI_{i,foreign} + \alpha_3 \mathbf{Z}_i + \varepsilon_{it}$$

- Results: $\alpha_1 > 0$; $\alpha_2 < 0$

$$Exposure_{it} = \gamma_i + \gamma_t + \beta Member_{it} + \varepsilon_{it}$$

- Results: $\beta > 0$

$$Exposure_{itj} = \gamma_{ij} + \gamma_{it} + \delta Cover_{jt} + \eta Member_{it} \times Cover_{jt} + \varepsilon_{ijt}$$

$$Exposure_{itj} = \gamma_{ij} + \gamma_{it} + \zeta Member_{it} \times Related_{ij} + \\ + \theta Member_{it} \times Related_{ij} \times Cover_{jt} + \varepsilon_{ijt}$$

- Results: $\eta > 0$; $\zeta, \theta > 0$

- Very interesting paper, addressing relevant questions on interaction market structure - information sharing decisions
- Rich set of tests, with several insightful results
- My comments most for possible improvement:
 - 1 further tie results together, through role of market structure

- Very interesting paper, addressing relevant questions on interaction market structure - information sharing decisions
- Rich set of tests, with several insightful results
- My comments most for possible improvement:
 - 1 further tie results together, through role of market structure
 - 2 further disentangle mechanisms

How to tie results together? Role of market structure

- How to further tie results together, especially first part (market concentration and bureau entry) with second part (bureau coverage and loan portfolio)
- Role of market structure, across the board
- How to measure banking market contestability in first part. Theories stress switching and entry costs key for information sharing decisions
- Concentrated credit markets might actually feature higher entry costs, be less contestable by new bureau entrants
- More info on:
 - 1 lenders' entry patterns and presence in these markets?
 - 2 measures of portfolio overlap of lenders joining bureau? Banks with little market overlaps are weaker competitors

More on market structure

- Bouckaert and Degryse (2004): commitment to information sharing exacerbates ex-post competition but dilutes ex-ante competition
Lenders have less incentive to acquire market shares, leading to less concentrated credit market
- Do we observe more about pattern of lenders' market shares in previous periods?
- In second part, focus on impact of bureau coverage on size of lenders' portfolios
- Jappelli and Pagano (2005, 2015): "*effect ambiguous a priori, increased lending to safe borrowers vs. reduced lending to risky ones*"

More on market structure

- Here, lending increases. Is finding consistent with prediction above?
 - How is effect related to credit market contestability (market concentration)? Is effect of coverage expansion driven by banks with (non)overlapping loan portfolios?
 - Theories: high incentive to serve clients on which informational gain from credit bureau. Interestingly, here banks mostly leverage on previous expertise
- Is there some info on turnover of businesses in equipment finance industries/regions? Perhaps control for region \times time dummies?

Other measures of market structure

- What is possible role of relationship lending/multiple credit relationships in equipment finance industry?
- Soft information should protect firms from competition, while here proxy for soft info seems to have opposite effect

Other aspects: role of lenders' coordination

- Role of lender coordination in the results?
- HHI also captures number of lenders in the local market. Can coordination jointly drive information sharing and concentration?
You could sterilize effect of number of lenders

Concluding remarks

- Very interesting and insightful paper!
- Advances understanding of forces driving information sharing