Comments on: Advancing Asia's Payment Systems Through Financial Technology by Yueling Huang

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Outline

- An important topic: Fintech has great promise to help promote the goals of financial inclusion, but also presents numerous challenges, including:
  - Need for adequate financial literacy and consumer protection
  - Data security risks
  - Potential for widening of income/wealth gaps
  - Maintenance of financial stability
  - Regulation must balance innovation with regulatory obligations
- "…the aim of this paper is thus to provide a comprehensive empirical assessment of the growing penetration of digital/FinTech payment systems, their impacts and challenges, and reflect on ways for improvement."
- Overall comment: The paper presents a nice overview of many issues on this topic, but regressions are problematic and some of the arguments need to be strengthened

1. Introduction

- Need to distinguish between card-related digital payments and more recent developments, e.g., Alipay, WeChat
- Definition of fintech
  - Some would exclude internet banking
  - But should include e-commerce in Fig. 1
- Need to add definitions of various fintech categories
- Literature review (none yet)

2. 10 stylized facts

3. Average value for checks in EMEs seems very high ($18K)

4. Something strange—how can average value per transaction be higher overall than for all categories for EMEs?

10. Figures for 2014 and 2017 should be scaled the same to make the more easily comparable

3. PRC Case Study: E-commerce

- Definition of PKU-DFIIC index? (units?)
- Dependent variable: E-commerce sales & purchase value
- Explanatory variables —need more data description
  - Payment index—very significant
  - GDP per capita
  - Share of rural population—very significant
  - Share of population aged 65
  - Number broadband subscribers
- Questions:
  - How much does PKU-DFIIC index include e-commerce, aren't they mostly the same thing?
  - Variables likely to show strong time trends: Lagged effects? Lagged dependent variable? Stationarity issues?
  - Helpful to normalize the dependent variable?

3. PRC Case Study: E-commerce (2)

- IS approach
  - IV: PKU-DIICF Insurance index (why chosen?) Still likely to be correlated with e-commerce
- Explanatory variables
  - Payment index—very significant
  - GDP per capita
  - Share of rural population—very significant
  - Share of population aged 65
  - Number broadband subscribers
- Questions:
  - How much is e-commerce included PKU-DFIIC index?
  - Lagged effects? Lagged dependent variable? Stationarity issues?
  - Causality vs. correlation

3. PRC Case Study: Fintech products

- Dependent variable: Fintech product indices for insurance, money funds, credit, investment, credit investigation
- Explanatory variables
  - Payment index—very significant
  - GDP per capita
  - Share of rural population—insurance only
  - Share of population aged 65
  - Number broadband subscribers—significant but inconsistent sign
- Questions:
  - The payment index is the only significant variable, too good to be true? This probably simply reflects the fact that all are growing rapidly
  - Lagged effects? Lagged dependent variable? Stationarity issues?
  - Causality vs. correlation

4. Cross-country Study: E-commerce

- Dependent variable: E-commerce sales value
- Explanatory variables
  - % making digital payments—very significant
  - GDP per capita
  - Share of rural population
  - Share of population aged 65
  - Broadband subscribers per 100 people—marginally significant
- Questions:
  - Again, aren't a lot of digital payments for e-commerce?
  - Lagged effects?
  - Lagged dependent variable?
  - Causality vs. correlation

5. Digital payments and informal economy

- Negative relationship between the size of the informal economy and digital payments is documented by the BIS (2020)
- But what is definition of informal economy?
- Informal economy participants can use fintech as well, e.g., street vendors, but not necessarily an incentive to become formal
- Use of digital payments is correlated with lots of other indicators of financial inclusion, so hard to make a strong argument that this is a key factor promoting reduction of the informal economy

6. Challenges and policy recommendations

- Challenges of digital payments
  - Efficiency/convenience—issues of “payment divide”; exclusion of cash
  - Transparency—risks to data privacy
  - Security—cyber attacks; cyber fraud
  - Network effects—excessive market power
- Other concerns that could be mentioned
  - Over-borrowing
  - Use of AI could lead to discriminatory lending and other practices

6. Policy recommendations

- Recommendations for policy makers
  - Bridging existing regulatory gaps to reflect emerging legal issues arising from FinTech payments
  - Encouraging interoperability between platforms
  - Providing relevant devices, connectivity, digital ID/KYC and technological/financial literacy, especially to the more socially disadvantaged groups—digital financial literacy is important
  - Maintaining the provision of alternative payment options, especially the availability of cash—a problem in the PRC?
  - Promoting regional cooperation in the standardization of industry practices, cross-border crimes and payment systems integration
  - Introducing digital G2P/G2B/P2G/B2G payments and CBDC to incorporate FinTech and the use of digital tools—how necessary is CBDC?; risks need to be considered as well

6. Policy recommendations (2)

- Recommendations for fintech
  - Constantly leveraging the latest technologies and upgrading cyber-security measures
  - Complying with regulatory efforts—this not needed
  - Engaging in knowledge sharing (when possible) and standardization of industry practices—a good proposal

7. General comments

- An ambitious and interesting study, but need to be cautious about claims
  - Regressions are problematic, and are far from establishing causality in a convincing way; in fact, it's not clear what they are adding
  - In some cases the arguments are based on simple bivariate correlations, which are not convincing given all the different factors involved
  - Text states: "In Sections II – IV, we discussed how FinTech payment makes retail payments more efficient (cheaper, faster, safer), transparent and inclusive in areas such as e-commerce, FinTech development, domestic remittances transfers, G2P/G2B and the informal economy." The studies in sections III-IV show correlations but not benefits
  - Discussion of G2P and G2B payments and Covid-19 is quite limited, needs to be expanded

Thank you!