

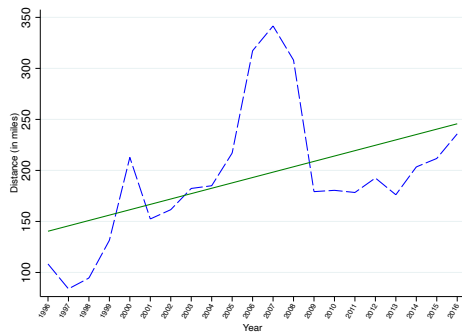
“Broadband and Bank Intermediation”

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Discussion by João Granja

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Overview



Source: Granja, Leuz, and Rajan (2022, JF forthcoming)

- ▶ Trend toward greater lending distances between small borrowers and lenders in the US over the past 20 years
- ▶ Symptom of changes in lending technologies

This paper

Investments in broadband facilitate the exchange of information between banks, lenders, and retail depositors and could have far-reaching consequences on the industrial organization and performance of the sector

Main Results – The adoption of broadband technology:

- ▶ increases lending in the extensive and intensive margin
- ▶ increases lending productivity and lending distance
- ▶ improves ex-post lending performance
- ▶ heightens competition between banks
- ▶ less bank branching in rural areas but with no effect on economic growth

Main Takeaway

- ▶ Great Paper! Expands on Rajan and Petersen (2002, JF) and others by opening the black box of what were the important structural transformations behind current trends toward reliance on hard information in banking

[Comments:]

1. There is a lot on the paper! Split?
2. IV strategy
3. Refinement of some empirical tests

1. Split?

The paper is very comprehensive. Potential roadmap to split the paper:

1. Effects on the provision of safe deposits and transaction services
 - ▶ IT revolution in services (e.g., Chang-Tai Hsieh and Rossi-Hansberg, 2020) → investments in IT (e.g., online banking) imply greater economies of scale → movement toward bank consolidation
 - ▶ would require more data on bank's IT investments
2. Effects on lending function of banks
 - ▶ already well developed

2. IV strategy

Identification Assumption: “*whatever correlation existed between the distance to the closest UGS and relevant municipality characteristics, this did not change at the time of the introduction of the ADSL in the municipality*”

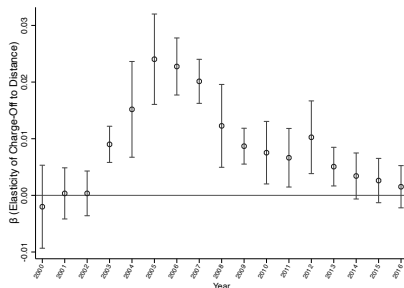
Table A1: Balance Table

	Close	Far	Norm. diff.	N.
Surface	35.31	55.06	(-.24)	4400
Altitude	205.08	336.16	(-.37)	4400
North	.69	.55	(.21)	4528
SL per capita	.24	.43	(-.39)	4528
Dist. province capital	2.67	3.23	(-.61)	4492
Pop. growth	.07	.04	(.3)	4361
Adults growth	.05	.02	(.21)	4528
Graduate growth	.88	.8	(.15)	4528
Foreigners growth	2.53	2.83	(-.09)	4524
Buildings growth	.13	.1	(.13)	4528
Firms growth	.1	.04	(.31)	4528
Employees growth	.05	.05	(.02)	4528
Income p.c. growth	.19	.17	(.19)	4361

Question: Could UGS close/distant areas have been disproportionately affected by the Italian TFP slowdown?

3. Refining some empirical tests

“The kind of firms that could borrow at a distance in the past must have been of unimpeachable quality since the technology enabling early intervention simply did not exist, and the costs of physical monitoring were prohibitive” (Petersen and Rajan, 2002 JF)



Source: Granja, Leuz, and Rajan (2022, JF forthcoming)

- ▶ How did the relationship of distance and loan default change with access to broadband?

Conclusion

- ▶ Important read for anyone seeking to understand the impact of IT adoption in the banking sector
- ▶ Best of Luck!