

Prof Uday Rajan

title: "Boundaries of the Bank"

abstract:

Should payment services and lending be bundled together in a bank or provided as standalone functions? We consider a model in which payment data are informative about credit quality, and there is a deterioration in the payment signal if it has to be transferred to a standalone lender. Any lender may invest in advanced data analytics that generate an enhanced signal about borrower quality. In most settings, bundling payment services and lending together into a bank is socially optimal. A standalone lender may be socially optimal in an intermediate range of parameters for which the bank is deterred from investing in the enhanced signal. We discuss the implications for narrow banking and the future FinTech landscape.