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When FinTech Competes for Payment Flows

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Haoxiang Zhu is the *Gordon Y Billard Professor of Management and Finance* and an Associate Professor of Finance at the MIT Sloan School of Management, and a Faculty Research Fellow at the National Bureau of Economic Research. He currently serves as a finance department editor of *Management Science* and an associate editor of the *Journal of Finance*.

His main research interests are broadly in asset pricing, especially market structure and market design. He has published research papers in the *Journal of Finance*, the *Journal of Financial Economics*, the *Review of Economic Studies*, and the *Review of Financial Studies*, among others. Zhu's research has won several awards, including the 2017 Amundi Pioneer Prize (First Prize) from the *Journal of Finance*, the 2016 AQR Insight Award (First Prize), the 2015 Kepos Capital Award for Best Paper on Investments from the Western Finance Association, and the 2013 *Review of Financial Studies* Young Researcher Prize. In 2016, he was named one of the 40 under 40 Best Business School Professors by *Poets and Quants*.

Haoxiang Zhu actively participates in policy issues on financial markets and financial regulation. He has previously served as an academic expert for the US Commodity Futures Trading Commission (CFTC) and the Bank for International Settlements (BIS), and is currently a member of the Federal Reserve Bank of Chicago's Working Group on Financial Markets.

He holds a BA in mathematics and computer science from the University of Oxford and a PhD in finance from Stanford University Graduate School of Business.

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We study the impact of FinTech competition in payment services when banks rely on consumers' payment data to obtain information about their credit quality. Competition from FinTech payment providers disrupts this information spillover, reducing the bank's loan quality and profit. FinTech competition benefits consumers with weak bank affinity (financial inclusion improves), but may hurt consumers with strong bank affinity. We consider three regimes in which payment information flows back into the credit market: FinTech lending, data sales, and consumer data portability. All three regimes improve the quality of loans, although their effects for bank profit and consumer welfare are ambiguous. Our results highlight the important and complex trade-off between consumer welfare and the stability of banks following FinTech competition in payment.