Can Regulatory Policies Foster Women's Financial Inclusion? The Role of Loan Loss Provisioning

A. Becerra-Ornelas D. Jaume T. Hernandez M. Tobal

Discussion by Marta Morazzoni

October 24, 2023

EBRD, We-Fi, CEPR Research Conference "Financing Women-led SMEs"

Summary of the Paper

1. **Research Question:**
   → Investigate the effects of regulatory policies on women's financial inclusion
2. **Data & Context:**
   - July 2021: reduction in loan loss provisions required for loans granted to women in Mexico
   - Proprietary dataset with information on all consumer loans extended by commercial banks
   - Empirical strategy: 2×2 DiD and dynamic DiD estimations (by bimester)
3. **Key Results:**
   - ↑ in personal loans to women; ↓ in interest rates (0.52 pp); ↑ in credit amount (2%)
   - Effects stronger for first-time borrowers and women living in municipalities w/ higher labor informality
   - Increase in overall financial stability, with a reduction in subsequent probability of defaulting
   - No effect for other types of credit that benefit less from lower loan loss provisions

Summary of the Paper

1. **Research Question:**
   - → Investigate the effects of regulatory policies on women's financial inclusion
2. **Data & Context:**
   - July 2021: reduction in loan loss provisions required for loans granted to women in Mexico
   - Proprietary dataset with information on all consumer loans extended by commercial banks
   - Empirical strategy: 2×2 DiD and dynamic DiD estimations (by bimester)
3. **Key Results:**
   - ↑ in personal loans to women; ↓ in interest rates (0.52 pp); ↑ in credit amount (2%)
   - Effects stronger for first-time borrowers and women living in municipalities w/ higher labor informality
   - Increase in overall financial stability, with a reduction in subsequent probability of defaulting
   - No effect for other types of credit that benefit less from lower loan loss provisions

Summary of the Paper

1. **Research Question:**
   - $\rightarrow$ Investigate the effects of regulatory policies on women's financial inclusion
2. **Data & Context:**
   - July 2021: reduction in loan loss provisions required for loans granted to women in Mexico
   - Proprietary dataset with information on all consumer loans extended by commercial banks
   - Empirical strategy: 2×2 DiD and dynamic DiD estimations (by bimester)
3. **Key Results:**
   - $\uparrow$ in personal loans to women; $\downarrow$ in interest rates (0.52 pp); $\uparrow$ in credit amount (2%)
   - Effects stronger for first-time borrowers and women living in municipalities w/ higher labor informality
   - Increase in overall financial stability, with a reduction in subsequent probability of defaulting
   - No effect for other types of credit that benefit less from lower loan loss provisions

Comments on the Main Results

1. **Important Assumption:** are we sure that a borrower's *identity* represents whom benefits from the loan?
2. **Heterogeneous Effects:**
   - Effect stronger in municipalities with high labor informality: who is the real borrower?

     $\rightarrow$ Municipalities FE cannot exclude men make wives or female relatives take out loans for them
   - Effect stronger for new clients: (real) first-time borrowers or switching from other banks?

     $\rightarrow$ Maybe use the sample in Figure 4 (BoM panel of new clients) to include pre-reform bank FE

     $\rightarrow$ With pre-2021 data, can look at compositional changes in size/type of borrowers across banks

     $\rightarrow$ See if borrowers switch between affected banks of between non-affected and affected ones
3. **Effect on (Future?) Financial Inclusion:**
   - The paper uses data on past and not future loans (2020 as opposed to say 2022...)

     $\rightarrow$ Not about future inclusion but rather incremental improvement for existing borrowers!

Questions on the Empirical Strategy

1. **Unclear sample:** 292 intermediaries in Mexico, 28 in your sample, how many affected by the reform?

2. **Identification:**
   - Can the upward sloping pre-trend in new women's loans bias the estimation of pass-through effects?
   - Since the $\uparrow$ in women's loans is not within banks, why not controlling for previous client-bank links?
   - *Pre-treatment coefficients:* small but not 0, use pre-2021 data to investigate potential seasonality?

3. **Placebo Test:** same sample of affected banks but different year (2019) ▸ Placebo
   - ✓ No treatment effect for loss provisions or credit conditions compared to 3rd bimester...
   - ✗ But clear seasonal pattern: first 2 bimesters have lower provisions and lower loan amount!

Questions on the Empirical Strategy

1. **Unclear sample:** 292 intermediaries in Mexico, 28 in your sample, how many affected by the reform?

2. **Identification:**

   - Can the upward sloping pre-trend in new women's loans bias the estimation of pass-through effects?
   - Since the $\uparrow$ in women's loans is not within banks, why not controlling for previous client-bank links?
   - *Pre-treatment coefficients:* small but not 0, use pre-2021 data to investigate potential seasonality?

3. **Placebo Test:** same sample of affected banks but different year (2019) ▸ Placebo

   ✓ No treatment effect for loss provisions or credit conditions compared to 3rd bimester...

   ✗ But clear seasonal pattern: first 2 bimesters have lower provisions and lower loan amount!

What is There to Learn for Policy Makers

- Regulatory policies can affect women's financial inclusion in LMIEs
- But under which conditions? And what's the story behind?
- Why the effect is there only for consumer loans?

→ No effect of lower loan provisions on (female) automotive and salary-based loans...

→ Is it because of other gender gaps prevail, eg: wage and employment differences?

→ Do we care about what the credit is used for when designing inequality-decreasing policies?

→ Can lower loan provisions mitigate other gaps such as gender-based collateral constraints?

→ How to foster women's inclusion in investment-related financing i.e: house, business credit?

What is There to Learn for Policy Makers

- Regulatory policies can affect women's financial inclusion in LMIEs
- But under which conditions? And what's the story behind?
- Why the effect is there only for consumer loans?
  - → No effect of lower loan provisions on (female) automotive and salary-based loans...
  - → Is it because of other gender gaps prevail, eg: wage and employment differences?
  - → Do we care about what the credit is used for when designing inequality-decreasing policies?
  - → Can lower loan provisions mitigate other gaps such as gender-based collateral constraints?
  - → How to foster women's inclusion in investment-related financing i.e: house, business credit?

What is There to Learn for Policy Makers

- Regulatory policies can affect women's financial inclusion in LMIEs
- But under which conditions? And what's the story behind?
- Why the effect is there only for consumer loans?

→ No effect of lower loan provisions on (female) automotive and salary-based loans...

→ Is it because of other gender gaps prevail, eg: wage and employment differences?

→ Do we care about what the credit is used for when designing inequality-decreasing policies?

→ Can lower loan provisions mitigate other gaps such as gender-based collateral constraints?

→ How to foster women's inclusion in investment-related financing i.e: house, business credit?

What is There to Learn for Policy Makers

- Regulatory policies can affect women's financial inclusion in LMIEs
- But under which conditions? And what's the story behind?
- Why the effect is there only for consumer loans?

  $\rightarrow$ No effect of lower loan provisions on (female) automotive and salary-based loans...

  $\rightarrow$ Is it because of other gender gaps prevail, eg: wage and employment differences?

  $\rightarrow$ Do we care about what the credit is used for when designing inequality-decreasing policies?

  $\rightarrow$ Can lower loan provisions mitigate other gaps such as gender-based collateral constraints?

  $\rightarrow$ How to foster women's inclusion in investment-related financing i.e: house, business credit?

Concluding Remarks

Congrats!!!

- Interesting contribution to understand policies aimed at reducing the gender gap in credit
- Causal evidence from a specific regulatory policy change in Mexico in 2021
- Documents pass-through effects of the reform on spread, loan amount, and number of loans
- Highlights the importance of women's financial inclusion for macro financial stability
- Polished paper, well-explained and a pleasure to read
- Scope for a rich and broad research agenda

Placebo Test

▸ Back