Discussion of "FinTech Platforms and Mutual fund Distribution"

by Hong, Lu, and Pan

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This paper

- How FinTech platforms change flow-to-performance sensitivities?
  - “the average net flow to the funds in the top decile increases from 1.88% pre-platform (2008–2012) to 19.65% post-platform (2013–2017)”
  - Through the information aggregation/display channel

- Fund managers increase risk taking to enhance the probability of getting into the top rank
  - But with smaller economic significance

Comment #1: "Winner takes all"

- "winner takes all" phenomenon in platform economy
  - e.g., apple music, google search, uber, etc.

- Not clear if the effect on winner funds' flow really matters for market share
  - "the average net flow to the funds in the top decile increases from 1.88% pre-platform (2008–2012) to 19.65% post-platform (2013–2017)"
  - But not necessarily significant for market shares if smaller funds are on the platform
  - The analysis from HowBuy helps
  - It'd be interesting to have more direct tests on market share (e.g., Spiegel and Zhang 2013 JFE)
  - Check whether winner funds on the platform are taking up the most AUM of the market

Comment #1: "Winner takes all"

- A subtle point: it can be Tiantian who takes all the market shares from other traditional distributional channels

- That is, not necessarily the winner funds on Tiantian
  - Those funds are still traditional mutual funds
  - As an analogy, the best rated uber driver would not take all the business

- If this is the case, then not sure how much the flow-to-performance sensitivity results can say about platform economy

Comment #2: Implications to investor welfare

- Does the platform really help investors make better investment decisions?
  - it induces stronger trending chasing behavior
  - which we know is not good given on performance persistence
  - Via information display, not tech convenience

- Even worse, funds tend to take excessive risk

- This seems different compared with other platforms, such as Uber

Comment #2: Implications to investor welfare

- Another perspective to think about welfare is whether such platforms can enhance participation
  - And guide investors to the low fee products or index funds
  - Particularly matters for long-term investors

- I agree these questions are beyond the scope of this paper

- But they are important to China's mutual fund industry
  - High fees (1.6% expense ratio)
  - Chinese households only invest 3.8% of their saving in mutual funds (*vs*. 16% direct own stocks and 66% in bank deposit)
  - Very small relative to the cap of the stock market

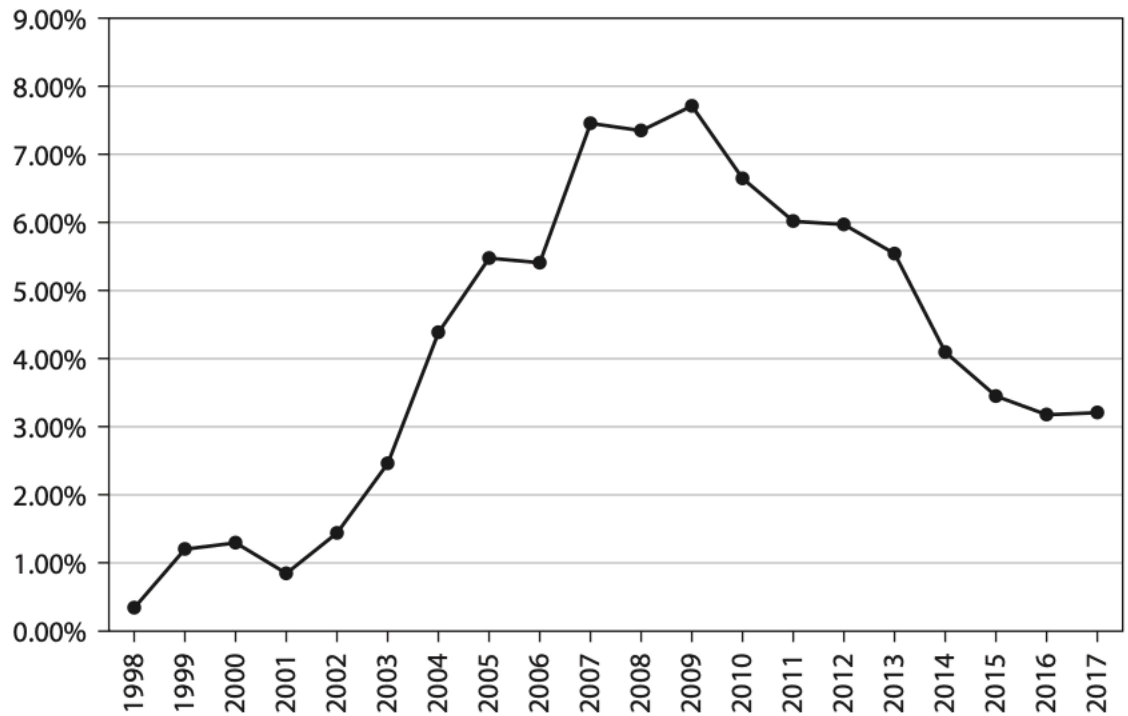

FIGURE 14.2. Fraction of total stock market capitalization owned by mutual funds. *Source:* Author's calculation, based on CSMAR data.

Source: Chapter 14 "Investment funds in China" of The Handbook of China's Financial System, Ed. Amstad, Sun, and Xiong, Princeton University Press 2020

Comment #3: How to distinguish between information display vs salience

- The paper has made great efforts to pin down the underlying channels in Section 4
  - Mostly based on the fund-event level evidence
  - Better if investor-event level data is available

- The information display channel cannot be distinguished from the salience effect
  - As documented in Kaniel and Parham 2017, for example
  - Compared with the WSJ category top rankings

- The welfare implications are different

Conclusion

- Overall, it is a great paper
  - Great data and setting
  - Timely topic
  - Thought-provoking
  - Well-written

- I enjoyed reading it and learned a lot