

The Impact of Information and Communication Technologies on Banks, Credit, and Savings: An Examination of Brazil ^{*}

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Abstract

How do Information and Communication Technologies (ICTs) reshape the banking industry and banking habits? Using panel data containing detailed banking statements for public and private bank branches, I show that, following the rollout of the 4G mobile network, 8% of private banks exit the municipalities while their branches shrink on average 11% within five years of the introduction of this technology, compared to municipalities that do not have it. Public banks, on the other hand, are not responsive to improvements in mobile connectivity in terms of branch and bank organization. I also find that credit access increases in the presence of mobile networks, including in municipalities without traditional banks, suggesting the potential of bank digitization for financial inclusion.

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1 Introduction

What are the social and economic implications of more internet services on banking? There is a broad view that increased connectivity leads to financial inclusion (Karlan et al., 2016), smaller transaction costs (Mbiti and Weil, 2011), and smoother consumption patterns (Jack and Suri, 2014). However, other studies highlight that digitization may induce the most vulnerable to pay more for banking services (Jiang et al., 2022) and is not a panacea to alleviate credit constraints (Bharadwaj et al., 2019) or increase the habit of savings (Dubus and Hove, 2017).

This paper proposes to examine what happens to the banking industry and banking habits as Information and Communication Technologies (ICTs) become available in a developing setting. Given the availability of more and better internet, how do the banks' credit portfolios react? Can better internet change the composition and structure of the banking industry by affecting the number of firms (banks) and shops (branches)? And are banking patterns different for public and private banks?

To accomplish this task, I focus on Brazil. The country offers a unique opportunity to examine the impact of better-quality internet on the financial industry for three reasons. First, the rollout of ICTs in a continental-sized country of 214 million people has been gradual, in contrast to the often-simultaneous implementation of internet resources in developed countries. Second, this study benefits from the rich granularity of administrative banking data available for more than 25,000 bank branches distributed in over 3,500 of the 5,570 cities of Brazil, plus credit information at the individual level for all municipalities of the country. Third, given its size and geographic diversity, Brazil offers a unique case study in the international community for its broad and relatively quick adoption of digital banking technologies to fasten payment methods online ¹

To tackle the research questions, I consider the expansion of the fourth generation (4G) of mobile network infrastructure, which is the first wave of mobile broadband technology that allowed users to freely use mobile banking apps from smartphones and tablets. Starting in 2014 up until August 2020, the rollout of 4G services reached 90 percent of the municipalities in Brazil.

From a methodological standpoint, obtaining a causal relationship between internet access and banking outcomes is challenging. An ideal experiment would randomly assign municipalities to access new technologies over time and, thus, create exogenous variation in the assignment of treatment and control groups. In the absence of a controlled randomized trial, however, one is forced to turn to nonexperimental methods that, under certain regularity conditions, identify and esti-

¹Digital and online banking are used as synonyms in the text.

mate causal effects. A major concern is that the municipalities that were offered internet could be different from the municipalities that were not and that these differences may be correlated to the outcome variables of interest. A common method of controlling for time-invariant unobserved heterogeneity is the use of panel data to estimate differences-in differences models (DiD). I thus turn to a DiD approach, which compares the change in outcomes in the treatment group, i.e., municipalities with 4G network, before and after the intervention, to the change in the outcomes of the untreated group.

I show that, as the 4G network becomes available, private and public banks have different response behaviours with respect to their organization. On average, municipalities with access to this technology lose about 8% of private banks (firms), closing 11% of all branches (shops). By contrast, public banks are not sensitive to more internet resources, except for a very slight increase in the number of public branches up to three years post-4G network implementation. This sharply distinct outcome for public and private banks is consistent with the fact that public banks do not pursue profits as their main goal, but are primarily the executioners of public policies in Brazil.

With the rollout of the mobile network, one would expect an increase in the opportunity to extend credit to consumers, as they would have banking options outside traditional branches. This is indeed the case, as total credit increases by up to 12% after the 4G network becomes available. More importantly, consumers who live outside municipalities with a bricks-and-mortar bank branch see an increase of up to 17% on the credit market overall.

The rich granularity of the data in a continental-sized country allows the study of the heterogeneity of the impact of the 4G mobile network, which helps to shed light on some of the mechanisms at play. First, I show that the 4G mobile network impacts more the urban, big, and rich than the rural, small, and poor municipalities. This result suggests that not only the availability of the internet is important to spark changes in the banking industry, but also the quality of the network (IICA, 2020). The second mechanism is related to the behaviour of the industry. By clearly following distinct paths in opening and closing banks and branches as the internet progresses, it becomes clear that more connectivity has been reshaping how public and private banks reorganize themselves, with the predominant channel likely different in both cases. While private branches might be closing to sustain a minimum profit margin per branch, public banks and branches remain available to serve the population regardless of the increasing mobile network availability.

Third, the fall of deposits and savings products at the branch level in response to better internet quality may signalize that consumers are increasingly taking advantage of online banking services

offered by different players, from fintechs to traditional banks offering digital channels. Finally, the fact that results are deeper in big centres suggests a potential channel for the deepening of inequality, as those individuals without the same internet resources may lag behind on the variety of banking options available to them (BIS, 2018; Jiang et al., 2022; Prasad, 2021).

There may be other mechanisms at play as well. For example, even though one can estimate the impact of ICTs on the credit granted at the bank branch level, it is not possible to separate what is due to customers increasing their credit options from the outcomes generated by the externalities associated with the ICT on the credit market. Identifying the causal effect of each channel would require one instrument per channel (Chodorow-Reich, 2014; Joaquim et al., 2023), which is out of the scope of this paper.

I document the absence of pre-trends: the future availability of mobile networks has no effect on credit, savings, and the percentage differences in the number of bank branches, but the effect of the 4G expansion is significant. These results are observed following an event study design and are robust to the inclusion of municipality-bank fixed effects (as in (Jiang et al., 2022) without affecting the magnitude of the estimates or the statistical significance of the coefficients. In addition, I show the robustness of the results through the implementation of a placebo, the new methodology of DiD for staggered designs (Sun and Abraham, 2020), and a test for spatial correlation between markets that could be contaminating the results (Conley and Molinari, 2007). Finally, I adopt an instrumental variable identification strategy based on geographical barriers that help predict the progress of the 4G network rollout, a design that is relatively well established in the literature (Guriev et al., 2021; Manacorda and Tesei, 2020). In particular, the incidence of lightning strikes is used to instrument the speed of the mobile network adoption. All results are confirmed in this alternative econometric approach.

This paper is related to several strands of the literature. First, this work is connected to how the use of internet resources can change the banking industry itself (Cisternas Vera, 2017; Jiang et al., 2022). By showing different paths for private and public banks in the decision to open and close new banks (firms) and branches (shops) at the municipality level in response to better internet services, this work makes a novel contribution to the understanding of the dynamic of the private and public banks when more technology is available (Singh and Arora, 2011; Srivastav and Mittal, 2016).

Second, this work is related to financial development through digital finance. Past studies have demonstrated that having access to internet resources to make financial transactions may lead to

smaller transaction costs (Mbiti and Weil, 2011) and to the expansion of credit (Bharadwaj et al., 2019), although not necessarily to higher savings (Dubus and Hove, 2017). This paper contributes to this literature by examining the effect of higher internet availability on the structure and portfolio of the banking industry for credit and savings, using high-frequency data at both the consumer and bank branch levels across the full territory of Brazil².

Third, this paper also connects to the literature that studies the behavioural aspects related to accessing digital products and services. Previous research (Lule et al., 2011) has discussed how credibility and ease of use are among the main factors that influence the adoption of the internet to perform financial services online. By observing different patterns in the volume of credit and savings once the internet becomes available in the municipality, one can infer that consumers are changing how they perform financial transactions and how they interact with their banks.

Fourth, the research joins previous work analyzing the impact of bank concentration (e.g. fewer banks available) on credit (Joaquim et al., 2023; Nguyen, 2019). This work adds to the literature by showing the impact of the internet rollout on bank branch availability, as services have been increasingly migrating to digital platforms. As local branches are expected to close as the internet becomes more available, the remaining branches will likely obtain a higher market share, with the potential to increase fees and worsen conditions for local consumers (Jiang et al., 2022).

The remaining of this article is organized as follows. Section 2 presents the conceptual framework. Section 3 introduces the setting. Section 4 details the data and 5 discusses the empirical strategy. Section 6 shows the average effect of 4G expansion the banking industry and banking products for Brazil and discusses the validity of the identification assumptions. Section 7 develops several robustness checks to validate the main results. Section 8 offers the heterogeneity analyses. Section 9 explores the policy implications of mobile broadband internet expansion through the banking channel. Section 10 concludes. All appendix material is found after the References Section.

2 Conceptual Framework

This section introduces the conceptual framework to help us predict how new internet technology impacts the banking industry and leads to modified consumer behaviour. Three testable hypotheses are formulated.

²In an earlier version of this paper, the author examined credit variables at the branch level only (Alves, 2024).

Hypothesis 1. Increased digitization induces banks to shut down branches.

Technology has been reshaping the financial ecosystem and the future of banks at an increasing speed. The internet, in particular, is widely recognised as a distribution channel for the banking industry, including traditional banks and new players that have been discovering its effectiveness compared with other channels (Barbesino et al., 2005). Different types of information technologies can help reduce information asymmetry and imperfect information in markets, thereby facilitating search and coordination and increasing market efficiency (Beuermann, 2015; Chong and Yanez, 2020).

Seminal models of the impact of lower costs on the economy are proposed by (Stigler, 1961) and (Varian, 1980), but the substantial reduction in costs boosted by the internet was developed much later (Borenstein and Saloner, 2001; Brynjolfsson et al., 2010; Goldfarb and Tucker, 2019; Shapiro and Varian, 1998). With respect to the banking industry, we can expect that search costs or the costs of looking for information will be reduced. The role of geographical distance changes as the individual does not need to travel to a brick and mortar bank to get informed about a loan or savings product, thus significantly reducing "search costs" through online resources (Chong and Yanez, 2020; Han and Noh, 1999). At the same time, the bank does not need to provide the same physical infrastructure to offer information, thus enabling much more centralized operations digitally (Acemoglu et al., 2007; Bloom et al., 2014) and reducing infrastructure costs.

Another type of cost that is likely to decrease with the introduction of internet access is related to replication, in the sense that goods made of atoms and bits are non-rival, i.e., they can be consumed by one person without reducing the amount or quality available to others. To a certain extent, products and services offered by financial institutions were already non-rival before the current revolution in digital banking. Still, exclusively online transactions will also decrease paperwork, even though there will be higher costs related to Information Technologies (IT) (Liu, 2021; Temenos, 2015). Money invested in IT, however, has the potential to be money well spent. For example, (Silva et al., 2021) show that bank branches in Brazil that invested more in IT before the Covid-19 outbreak suffered less from the adverse effects of the pandemic and ended up leveraging their positions in terms of market power compared to other bank branches that have not done the same investments.

Finally, we can expect that digitization will lead to lower transportation costs, since information is now stored in bits (Goldfarb and Tucker, 2019). One interesting question in banking is whether this lower cost will lead to the "death of distance" – in other words, does it matter if the bank has

headquarters in the individual's neighborhood or a far away municipality? (Lendle et al., 2016) show that, for exclusively online services, distance matters substantially less. However, in places where there is a physical presence of the business, online services may be smaller (Dinlersoz and Pereira, 2007). This might be because bank preferences are local (Cisternas Vera, 2017; Nguyen, 2019). Importantly, the closure of branches in response to more technology is well documented in the literature in the United States (Cisternas Vera, 2017; Jiang et al., 2022).

Hypothesis 2. Different objectives for private and public banks will lead to different response behaviour with respect to more internet technology.

The current banking structure of Brazil is based on the specialization of financial institutions, which can be public or private corporations whose principal or secondary business is the collection, brokerage, or investment of financial resources belonging to themselves or third parties, in domestic or foreign currency, and the custody of assets belonging to third parties (CMN, 1964). Private and public banks compete for similar clients, are equally spread throughout the territory, and have similar regulatory and supervisory frameworks. However, an important distinction is that public banks have the added responsibility of being the direct executioners of public policies in the country. In that sense, we predict that public banks will not be as reactive to more internet resources as their private counterparts.

I will test this hypothesis in two ways. The first is directly by comparing the behaviour private and public banks as a whole. The second is by taking advantage of an interesting feature of the two main public banks in the country. The first, "Banco do Brasil" (BB), is only partially controlled by the government and is responsible for financing the national agribusiness, agricultural exports, and small and medium-sized companies. The second, "Caixa Econômica Federal" (CEF), is fully controlled by the government and acts on behalf of the state in the implementation of social policies such as unemployment insurance, benefits from social programs, financing of popular housing, and basic public sanitation in states and municipalities (Araujo and Cintra, 2011). If the hypothesis is confirmed, we can predict that BB will behave half-way through between purely private and purely public banks with respect to the decision to close branches.

To the best of my knowledge, there is very limited evidence on the different behaviour responses of private and public banks to more technology, except when examining different patterns for customer service in online environments (Singh and Arora, 2011; Srivastav and Mittal, 2016).

Hypothesis 3. Increased digitization induces modified behaviour in banking habits, but this is not uniform across all segments of the population.

The path toward digitalization is not linear nor likely going to benefit all individuals at the same time (Prasad, 2021; Jiang et al., 2022), for example, document how the benefits of digitization may come at the cost of non-digital consumers, which receives less attention in the current discussion of how technology affects the economy. Likewise, uneducated communities and low-skilled individuals who might not have the basic financial literacy to use and understand digital finance may not benefit as much from digital banking (Ozili, 2018). In addition, past literature has shown that it is individuals with high income and higher educational levels who tend to benefit more from greater financial inclusion (Demirguc-Kunt and Klapper, 2013).

Another demographic group that might not benefit from digital services availability is the rural population, which has a significantly lower quality of internet access. A 2020 study published by the Inter-American System for agriculture (IICA) showed that the Rural Connectivity Index in Brazil was only 46.9 percent (IICA, 2020).

3 Setting

3.1 General Features of the Banking Industry

The empirical setting of this paper is Brazil, the largest economy in South America (USD 1,839 billion in 2019) and the sixth-most populous country in the world (estimated 215 million people in 2022).

Brazil stands out as a country whose banking industry has passed by a striking transformation compared to the average of any other income-grouped economy. Figure ?? in the Appendix reveals the evolution of bank concentration over time compared to other countries. The sector is highly concentrated, with about 80 percent of total assets belonging to three private and two public "multi-service" banks, i.e., entities that can offer a large number of financial services – commercial, investment, credit, and finance-related.

Another feature is the relative size of the banking system. The five largest Brazilian banks alone currently have resources equivalent to the entire Brazilian economy. Boosted by the increase in credit to meet the greater demand during the coronavirus pandemic, the volume of total assets of financial institutions surpassed the Gross Domestic Product (GDP) in the country in March 2020 (InfoMoney, 2020). Brazilian banks are also well-known for their high profitability – four of the ten most profitable banks in the world are in the country (Luz, 2022).

Finally, Brazil is an interesting case to examine because firms are highly dependent on the

banking industry to obtain loans (around 60 percent of the external finance), which is still above the average of Latin America (51 percent), the most bank-dependent region for the alleviation of credit constraint in the world ([World Bank, 2022](#)).

As of December 2019, there were 7,135 private and 5,165 public branches spread across 3,240 of the 5,570 municipalities in Brazil. These numbers are down from 12,933 private and 9,991 public bank branches in January 2014, which used to cover 3,669 (65 percent) of municipalities ([BCB, 2021b](#)). In addition, closing branches ("exiters") outnumber the new branches ("entrants") in the last ten years, with a growing number of municipalities that became unassisted with bank branches in the same period (Appendix Figure 6).

Of the municipalities that were covered by banks in December 2019, 1,077 municipalities counted on only one branch. Of these municipalities with only one branch, 678 of them were served by public banks. Appendix Figure 9 shows that both public and private banks compete for municipalities with equivalent sizes of population and GDP, although public banks have a slightly higher presence in smaller municipalities.

3.2 The Evolution of Digital Banking

Digital transactions are possible through two means: internet banking (operations done on the banks' websites, usually on desktops and notebooks) and mobile banking (operations done in applications of the banks on cellphones and tablets). A broader term defined in the literature is "online banking", which refers to "several types of banking activities through which bank customers can request information and carry out most retail banking services such as balance reporting, inter-account transfers, bill payment, etc., via a telecommunication network without leaving their homes" (([Stewart, 2002](#)), p.6).

There is no specific regulation for "digital banking" in Brazil, as digitization permeates the whole financial system ([BCB, 2020](#)). Some banks have repositioned themselves to have customers exclusively online, so there is usually one or a few branches available for these banks. The extent to which financial technology will reshape the banking industry depends on the nature of competition for banking services that arises from innovation brought by the entry of new players, but there is evidence that new fintech-based service providers have expanded access to financial services and put pressure on the market share and pricing power of incumbent banks (see [Bogaard et al. \(2024\)](#) for a review on the literature of financial technology and competition for banking services).

Figure 7 helps to illustrate this point. It plots the savings deposits and long-term deposits

for traditional versus digital banks. When comparing both, a few highlights stand out. The first is the proportion of the volume transacted in traditional versus digital banks, of up to 600 to 1 (savings deposits). The second aspect is that the speed of the growth for the financial products – as measured by the inclinations in the curves – is higher for digital banks than for traditional banks, which indicates that digital banks have been gaining market share. The third component is that while savings deposits do not seem to be the focus of digital banks (given their very small proportion), the relative space occupied for long-term deposits is much higher, about 30 to 1. Long-term deposits are more sophisticated financial products than savings deposits and require a minimum commitment that does not exist for savings deposits, which implies that digital banks are being enjoyed by higher-income individuals who can afford these higher income commitments.

Figure 8 in the Appendix offers a glimpse of the relative volume of transactions performed in traditional versus digital channels. The left panel illustrates the evolution of transactions through internet banking (i.e., through the financial institutions’ websites) and mobile banking (i.e., through their mobile platforms) for all banks of Brazil. While “internet banking” has been relatively steady throughout the years (blue bars), mobile banking has grown exponentially since its inception, in 2011. The same can be observed on the right panel, which shows the number of transactions aimed at credit taking through online platforms.

Distinguishing internet banking and mobile banking is relevant in this research for two reasons. First, they offer varying degrees of flexibility, allowing them to reach people from different socio-economic backgrounds. Internet banking usually depends on more expensive and heavier equipment such as computers and desktops, but mobile banking can be done on any smartphone and anywhere with an internet connection. While desktops and notebooks gravitate around 20 percent of households (tablets even less), cellphones availability has been increasing over the years and has reached 95 percent of the households in the country in 2021 (Cetic, 2021). The second reason why the distinction between mobile banking and internet banking is relevant is that these channels were initiated in different timelines: while the first online financial transactions were possible through internet banking starting in the year of 1995 (Diniz, 2006), mobile banking did not start until much later, in 2011 (Febraban, 2021).

4 Data

This analysis makes use of a rich set of variables coming from four different data sources: (i) administrative data containing the physical location, balance sheets and number of banks and

branches of each bank by municipality; (ii) credit registry known as Credit Information System (SCR, in Portuguese); (iii) whether a municipality is covered by the 4G network (datasets from both Teleco and Anatel); (iv) frequency of lightning strikes, to be used as an instrument to explain the rollout of the 4G network, provided by the WWLLN ³; (v) real outcomes (GDP, population, literacy rate, rural population) from the Brazilian Statistics and Geography Institute (IBGE), to be used in the heterogeneity analysis. In this section, I discuss the main characteristics of the variables and the datasets. Details on the variable construction and additional considerations can be found in the Appendix Table 7.

4.1 Banking

The first set of banking data comes from the credit registry (SCR), a dataset from the Central Bank of Brazil with comprehensive information on interest rates, loan amounts, maturities, and credit risks per individual credit contract for all types of financial institutions (traditional and digital banks, credit unions, etc.). Banks must submit monthly reports containing information about each loan.

The second set of banking data comes from Estban, the monthly banking statements by bank branch made available also by the Central Bank of Brazil⁴, and covers the period between July 2012 and December of 2019⁵. In terms of the industry arrangement, one observes the number of banks and branches, which can be paralleled to the concepts of firms and shops in economics (BCB, 2022). A bank or firm enters a municipality when at least one shop is open in that market, and exits a municipality when its last branch or shop closes. A branch or shop may close in the municipality, but other shops belonging to the same bank or firm may still be present.

³World-Wide Lightning Location

⁴Estban covers large private banks and public banks of all sizes, but does not contain information for credit unions and digital banks such as fintechs. However, these actors still had a small participation in the banking system. It was not until 2016 that fintechs emerged in the country, while credit unions detained less than 4 percent of the market in that year.

⁵The end period was chosen to avoid contamination of results with the expansion of telecom services that happened after the pandemic of Covid-19, as well as the release of the instant payment system PIX in Brazil, which also changed the dynamic of the market toward more digitization.

Table 1: Descriptive Statistics

Private Banks	Mean	Median	Std.Deviation
Branches	3.49	1.00	36.31
Banks	1.32	1.00	2.04
Assets	440,299	13,102	16,592,040
Cash	295	123.00	7,225
Total Credit	21,317	1,541	606,965
Credit to Agriculture	1,060	0.00	26,946
Real Estate Credit	1,848	0.00	117,260
Non-Earmarked Credit	18,413	1,311	492,537
Short-Term Deposits	1,192	408.00	9,637
Saving Deposits	3,757	2,027	17,082
Term Deposits	6,777	1,769	64,909
Payroll Loan	4.51	0.00	167.11
Personal Credit	7.19	0.00	156.12
Public Banks	Mean	Median	Std. Deviation
Branches	2.78	1.00	14.41
Banks	1.54	1.00	0.93
Assets	300,995	22,562	10,746,269
Cash	322	90	8,349
Total Credit	26,172	9,941	135,590
Credit to Agriculture	3,392	68	29,760
Real Estate Credit	9,112	759	32,479
Non-Earmarked Credit	13,738	4,466	117,413
Short-Term Deposits	1,713	805	7,732
Saving Deposits	7,775	3,812	12,015
Term Deposits	8,020	862	116,645
Payroll Loan	64.58	0.66	817.80
Personal Credit	25.53	0.73	372.89

Notes: Values adjusted by the local CPI Inflation (Consumer Price Index (IPCA)) and converted into American dollars. Exchange rate of December 31, 2019 (US=BR4.02)*1000. Average per financial institution across 2019m7 to 2019m12. Sources: BCB Credit Registry (SCR) for payroll and personal credit; all others: BCB/Estban. SCR contains information across all financial institutions, while Estban has information for banks only.

For the industry, I observe the number of branches per bank and the number of banks per municipality. In terms of financial products, the outcomes investigated are: i) credit as well as their main modalities (payroll loans, personal credit, etc.), which are available from the consumer’s perspective; ii) short- and long-term deposits and savings deposits, which are available at the branch level only.⁶

Table 1 shows the descriptive statistics separated by private and public banks across the full dataset. In terms of the industry arrangement, although there are on average about 26% more private than public branches among municipalities, there is a predominance of public banks in smaller municipalities. Other notable differences are the average size of branches as measured by assets (about 46% higher for private banks).

In terms of financial products, public banks predominate in short-term deposits, savings deposits, and total credit. When credit is broken down to visualize subsidized credit, we notice a stronger importance of public banks both in credit targeted to agriculture and to the real-estate sector, although the dispersion is higher for private banks.

Municipalities are considered the benchmark definition of a local banking market. Treated cities (i.e., municipalities that have access to the 4G network) have limited economic integration due to the extreme spatial dispersion of cities in Brazil given the country’s continental size. In that sense, they can be plausibly considered a collection of small independent economies, which allows the interpretation of the estimates as “local general equilibrium effects” (Fonseca and Matrey (2021); Joaquim et al. (2023)). This assumption is also consistent with the literature in the United States that shows that banking markets are highly localized (Cisternas Vera (2017); Garmaise and Moskowitz (2004); Granja et al. (2019); Nguyen (2019)).

From the banking data, the location of the branches is observed but not the location of borrowers. In addition, the banking operations done by individuals and firms are not disaggregated by channel, i.e., whether the operations were done through a digital means such as banking apps or the physical branch. That being said, it is plausible to assume that the differences observed in credit and savings before and after the internet rollout is due to the increased bank digitalization, given that Brazil has seen a dramatic increase in the number of digital financial transactions performed online. To illustrate it, from 2015 to 2020, there has been an increase of 173% in the use of digital

⁶The values observed for each variable are the “balance” deposited in each type of account, which can be broken down into the following equation:

$$D_t = (1 + i_{t-1}) * D_{t-1} + L_t - P_t$$

where D_t is the total debt held by individuals and firms in time t , i_{t-1} is the agreed interest rate of the accumulated debt, L_t are the new loans, and P_t are the payment of installments from individuals and firms at period t .

platforms for banking operations, with online transactions reaching 67% of all banking activity in the year 2020 (BCB (2021b)) and 7 out of 10 bank operations in 2021 (Febraban (2022)). Appendix Figure 8b also helps to corroborate the close relationship between the evolution of the 4G network and the credit operations taken online, as both move in the same upward direction.

4.2 Treatment Variables

Because the interest is to estimate the effect of mobile broadband internet availability on the banking industry, credit and saving, I exploit spatial and time variation in the 4G expansion. The 4G technology was the first generation of mobile networks that allowed users to actively browse the web on their phones, making financial transactions more accessible through bank apps regardless of the type of contract with the telecom carrier, pre- or post-paid. Up until 2013, about 80% of all contracts were still pre-paid (Anatel, 2020).

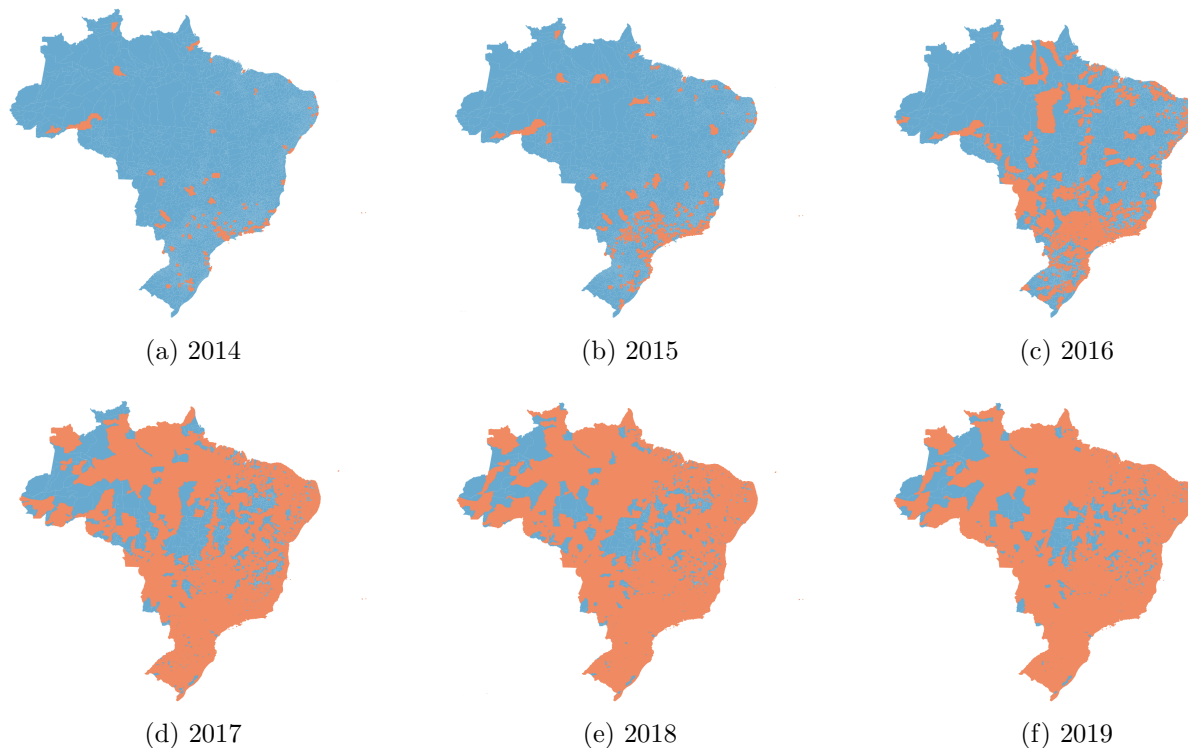


Figure 1: Rollout of 4G Network

From the point of view of the identification strategy, it is relevant to note that the expansion of the 4G network was facilitated by the infrastructure already in place for the previous generation (3G network), which was rolled out by a complex set of regulations that requested telecom companies to

serve both poor and rich regions simultaneously^{7 8}. For example, a company that won an auction to serve São Paulo (a richer region) also had to acquire and serve the North (a poorer region).

Another feature of the treatment is that the mobile broadband rollout obeyed a six-step expansion rule, from the largest to the smallest cities, which resulted in a quick expansion from 8.4% of the municipalities covered at the end of 2015 to 88% at the end of 2019, as illustrated in Figure 1 below. This is equivalent to more than 4,651 municipalities (185 million people) connected to this mobile internet technology in a five-year interval. By contrast, in December 2019, 16% (919 municipalities) were still not covered by 4G.

Interestingly enough, the rise in access to 4G technology was accompanied by a stable access to internet connectivity. As shown in Appendix Panel B of Table 2, except for the percentage of households with mobile internet use, the other indicators – the percentage of households with internet use, broadband subscriptions and mobile subscriptions – remained either stable or even decreased over time (Cetic, 2021). The reasons for this apparent contradiction are threefold. The first two help to explain the contraction of mobile subscriptions. First, telecom carriers reduced their interconnection rates, which encouraged people to reduce the number of chips (i.e., subscriptions). Second, this period coincides with the release of free messaging services. The third explanation applies to both mobile and fixed broadband: the expansion of the 4G network is concomitant with years of negative or very slow economic growth in Brazil.

The data on whether a municipality was connected to 4G internet by month and year comes from Teleco, a telecommunications consultancy firm in Brazil. For this analysis, I consider that a municipality has 4G internet at the half-year t whenever 4G started operating by June of t (first semester) or December of t (second semester). The dataset was built from the information they collect directly from telecom carriers and includes, for each municipality, the month and year of the first 4G internet connection.

As a robustness check, I also use the concept of the National Telecom Regulator (Anatel) to test the impact of the 4G network on the banking variables (see Section 7). The regulator considers that the municipality was covered by this technology in the month that the signal was measured by the telecom authority for the first time.

⁷Edital 002/2007.

⁸Part of the equipment is used in the transmission of both standards (3G/4G), given that the signal arrives to the telecom operators through optic fibers originated from big backbones. From there, the signal is taken to towers through routers and high-performance switches. It is only at this last stage that the two standards, 3G and 4G network, differentiate between each other (Hamman (2013)).

4.3 Controls

I use the following demographic variables as controls: population, GDP, literacy rate, and whether the municipality is urban or rural. The data on population and GDP are from 2012, which corresponds to two years before the initial year of the rollout of the 4G mobile networks and are provided by the Brazilian Institute of Geography and Statistics (IBGE). The other controls are from the Census 2010. Table 2 brings the descriptive statistics for the control variables and Appendix Table 7 contains a dictionary of the control variables that are used in this work.

5 Empirical Strategy

The objective of this paper is to identify the causal effects of 4G mobile network on financial outcomes. Specifically, the interest is to compare outcomes for treated municipalities (i.e., with 4G) with outcomes in the counterfactual group (no 4G), before and after the technology rollout. A municipality is considered treated if it has at least one telecom carrier offering the service each month. The identifying assumption of the estimates is that of parallel trends: absent the 4G technology, treatment and control municipalities would show the same change over time conditional on the municipality's characteristics. Although this assumption is not directly testable, I provide evidence of its validity by examining changes in the outcomes for the treated and untreated groups before and after exposure to the 4G network.

Since the causal effect of the 4G availability on finance cannot be estimated through a random experiment, the goal is to estimate causal effects through a statistical framework. A simple means comparison between treated and untreated units does not help us to achieve causality because of the potential correlation between the independent variables and other variables that are correlated with the outcomes of interest, which render selection into the "treatment group" non-random. Instead, assignment to the treatment group will likely have been a function of some other factor and, more importantly, that other factor will be correlated with a higher or lower level of the outcome of interest before the treatment variable is even assigned. For example, richer urban areas may have the privilege of having internet first. In this case, the correlation between internet availability and credit would be confounded with the wealth effect. This makes it more or less likely to erroneously attribute a causal effect to the treatment variable when comparing the difference between treatment and control groups after assignment (Manardo, 2011).

In principle, many of the types of unobservable characteristics that may confound identification

are those that vary across municipalities but are fixed over time. A common method of controlling for time-invariant unobserved heterogeneity is to use panel data and estimate differences-in-differences models (DiD) controlling for time and municipality fixed effects. To further strengthen the main specification, I also interact municipalities with banks present locally, which allows the exploitation of the time series variation in bank b 's decisions in municipality m .

Therefore, without the benefit of a controlled randomized trial, I turn to a DiD approach, which compares the change in outcomes in the treatment group before and after the intervention to the change in outcomes in the control group. By comparing changes, I control for observed and unobserved time-invariant municipality-bank characteristics that might be correlated with the internet rollout decision as well as with the outcomes of interest. The change in the control group is an estimate of the true counterfactual, that is, what would have happened to the treatment group if there had been no intervention. In other words, the change in outcomes in treatment areas controls for fixed characteristics and the change in outcomes in the control areas controls for time-varying factors that are common to both control and treatment areas (Galiani et al. (2005)). Formally, the DiD model can be specified as a two-way fixed-effect linear regression model:

$$y_{m,b,t} = \alpha_{m,b} + \lambda_t + \beta_t X_{m,b,t} + \sum_{\tau} \delta_{\tau} Internet_{m,t-\tau} + \varepsilon_{m,b,t} \quad (1)$$

where $y_{m,b,t}$ is an output of interest in municipality m in bank b at month t ; $\alpha_{m,b}$ is a fixed effect unique to each municipality-bank combination that removes time-invariant heterogeneity across them, and λ_t is the effect common to all municipalities in period t ; $X_{m,b,t}$ is a vector of bank and municipality control variables; and $Internet_{m,t-\tau}$ is a dummy variable that is equal to 1 if the municipality m is exposed to the 4G technology in month $t - \tau$. I use τ values ranging from -18 to 60, that is, one year and a half before the beginning of the internet rollout up to 5 years later. The coefficient δ is the differences-in-differences estimate of the average effect of internet availability on the outcomes of interest.

The error $\varepsilon_{m,b,t}$ is a municipality-bank-time varying error and is assumed to be distributed independently of all $\alpha_{m,b}$ and λ_t . The errors $\varepsilon_{m,b,t}$ might be correlated across time and space. For example, economic potential factors could induce time-series correlation at the municipality-bank level. To avoid potential biases in the estimation of the standard errors, I compute them clustered at the municipality (treatment) level.

I also address the challenges raised by the recent DiD literature that highlights the caveats associated with the estimation of fixed-effects models with the staggered rollout of the treatment

over time (e.g. (Goodman-Bacon, 2018)) and (Callaway and Sant’Anna, 2019)). (Goodman-Bacon, 2018) show that the coefficient for the treatment effects is a weighted average of all possible two-by-two DiD estimators in the data. As such, the use of the earlier treated as an effective control group for the later treated would be problematic because changes in the outcomes for the earlier treated units may reflect changes in the treatment effects over time. In this sense, the estimates for the treatment coefficient could be smaller in absolute values than the true treatment effects in dynamic treatment effects.⁹ Section 7 shows that the results of the main specification are robust to the more stringent approach of the new literature.

One challenge of this research is that although the DiD fixed effects approach controls for time-constant omitted variables, the estimates are susceptible to attenuation bias from measurement errors. For example, credit at the branch level may artificially be declared to be zero for accounting purposes for certain banks and the balance be transferred to the headquarters of that bank, which tends to be persistent throughout time. Measurement errors can also change from month to month (a bank may decide to change policies from maintaining to not maintaining credit at zero on the financial statements). Furthermore, while the value in credit may be misreported or miscoded for only a few bank branches in any single month, the observed month-to-month changes in credit may be considered mostly noise, and persistent problems or the lack of within-variation may lead to smaller fixed-effects estimates (Angrist and Pischke, 2009). To alleviate these challenges, I adopt two strategies. First, I collapse the data at the bank (firm) level per municipality per time. Second, I condense the bank statements into half-year periods.

Finally, although DiD can be used to estimate the effects of time-varying independent variables in the presence of time-constant omitted variables, this methodology does not help solve the problem of time-varying omitted variables that may be correlated to the explanatory variables (Wooldridge, 2020). To mitigate this concern, I turn to a second identification strategy – the 2SLS/IV approach, as developed in Section 7.

6 Results

This section presents evidence of the impact of the 4G mobile network on the banking industry separated by private and public banks, followed by the impacts of the mobile network on credit

⁹Sun and Abraham (2020) provide a unified framework for average treatment effects in DiD setups with multiple periods, variation in treatment timing, and when the parallel trends assumption holds potentially only after conditioning on observed covariates, thus avoiding the traps in the interpretation of DiD for multiple periods as pointed out by previous work (Athey and Imbens, 2018; de Chaisemartin and D’Haultfoeuille, 2020).

and deposits.

6.1 Banking Industry

Private and public banks react differently in response to more internet technology. While private banks close part of their branches and even leave municipalities altogether, public banks expand their branches, although this movement is very small and is not sustained over the years.

Branches Panels (a) and (b) of Figure 2 show an event study design using TWFE for multiple time periods for the number of private and public branches (‘shops’) per bank per municipality pre and post internet rollout ¹⁰ It plots the coefficients of the internet (4G network) captured by the δ_τ ’s estimated from Equation 1 with the number of branches per bank in municipality m at the half-year t as the dependent variable.

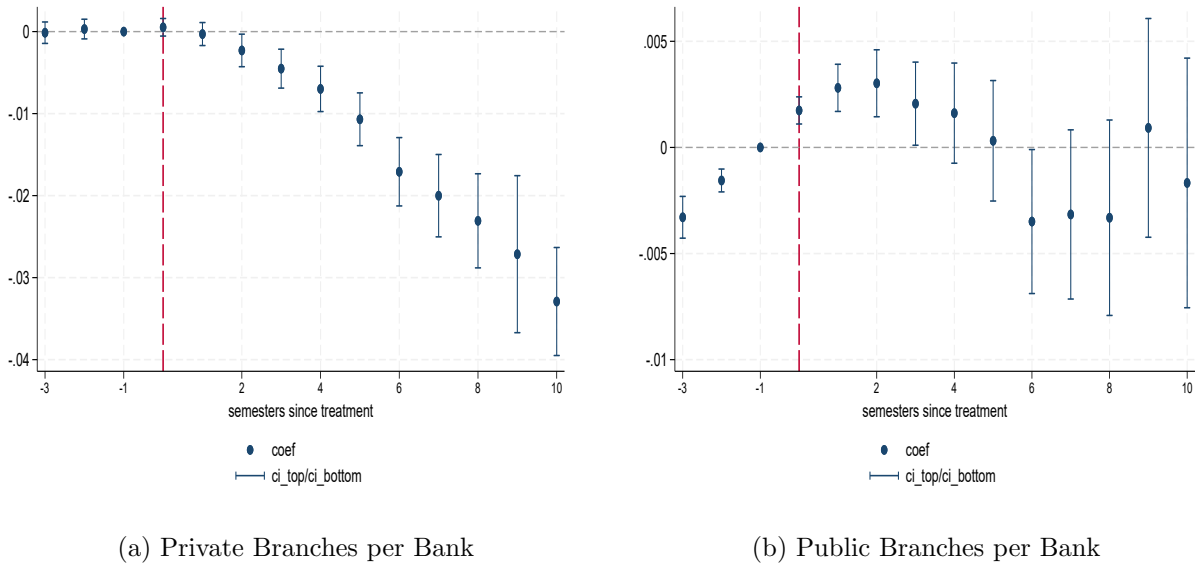


Figure 2: Branches per Bank

δ_τ ’s are estimated from Equation (1) with the number of private and public branches per bank in municipality m at the half-year t as the dependent variable using dynamic DiD. The regression outcome is from the branch-municipality balance sheets (ESTBAN). Municipality-bank and time fixed effects are used. Standard errors are clustered at the municipality level. Bars show 95% confidence intervals. Values are in log and normalized at $\delta_{-1} = 0$. Treatment municipalities are those that started to count on at least one telecom carrier to offer 4G network. Vertical lines represent the number of semesters that passed since the initial rollout of the internet technology.

Following the start of the 4G network, private branches per bank systematically fall by up to 6% in five years. Given that there are on average 1.86 banks per municipality (see Table 1), this means a loss of about 11% of branches per municipality over the course of 60 months. A very different

¹⁰The term “dynamic differences-in-differences” is used as a synonym of the staggered TWFE in this text.

behaviour is observed for public branches, as they initially expand slightly post-4G implementation, although this movement is not maintained in the longer run.

Another way to observe the behaviour of private and public banks with respect to the opening and closing of branches is by contrasting any potential differences between the purely public bank, "Caixa Economica" (CEF), and the mixed-economy bank, "Banco do Brasil". While the purely public bank is expanding branches, the mixed-economy bank is also closing branches, although at a smaller rhythm than its private competitors.

Banks The second variable analyzed is the number of banks or ‘firms’ per municipality over time. A firm is considered to exit the local market when their last branch closes in the municipality. Following the rollout of the 4G network, there is a small but statistically non-significant expansion of banks in the first four semesters post-technology, but after that banks exit municipalities by up to 8 percent at the end of five years. Conversely, no movement is observed for public banks.

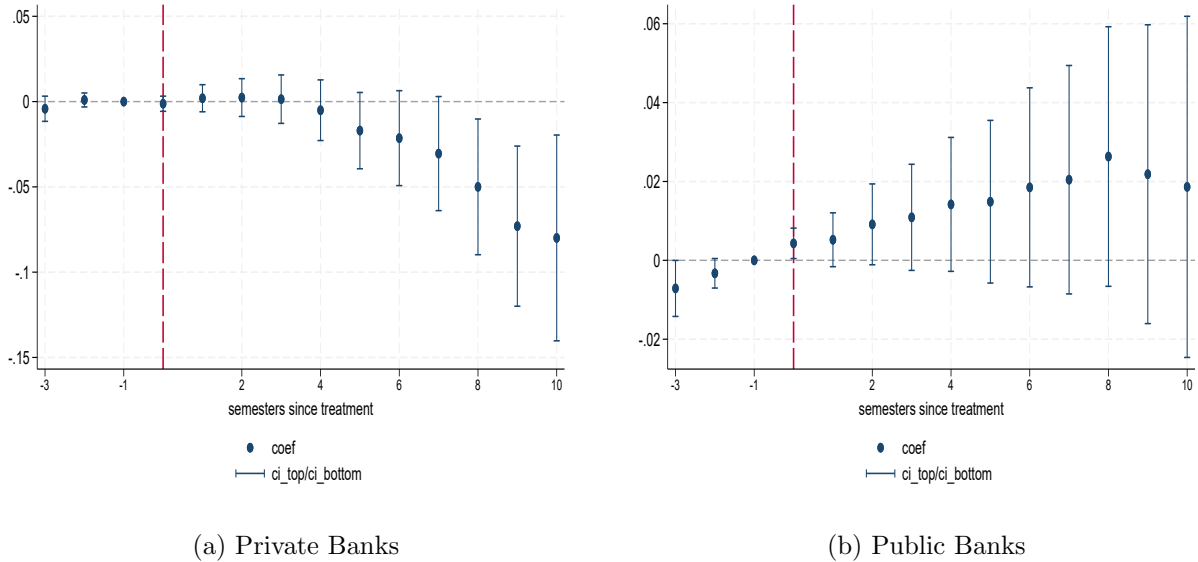


Figure 3: Banks

$\delta\tau$'s are estimated from Equation (1) with the number of private and public banks in municipality m at the half-year t as the dependent variable using dynamic DiD. All other specifications: see footnote on Fig. 9

6.2 Financial Products

Understanding the path of credit, deposits, and savings accounts is relevant to the analysis of how financial services are being used, as they are basic services offered by banks that guarantee the safe and convenient storage and movement of resources [BCB \(2021a\)](#).

I start by describing the impact of mobile technology on credit overall, and further discuss it

by private and public banks for payroll and personal loans, as well as the patterns observed for the number of clients for these types of credit. These results are based on a detailed dataset from the consumer’s perspective, which also allows us to observe both municipalities with and without bank branches.

Credit With the rollout of the mobile network, one would expect an increase in the opportunity to extend credit to consumers, as they would have banking options outside traditional branches. This is indeed the case for the full credit market, as shown on the left panel of Figure 4. Overall, total credit increases by up to 12% by the third year after the 4G network becomes available, with smaller increases thereafter.

Even more interesting is to examine what happens to consumers who live outside municipalities with a bricks-and-mortar bank branch. The right panel of Figure 4 reveals that, after the mobile network becomes available locally for these municipalities, total credit expands by up to 17% over four years.

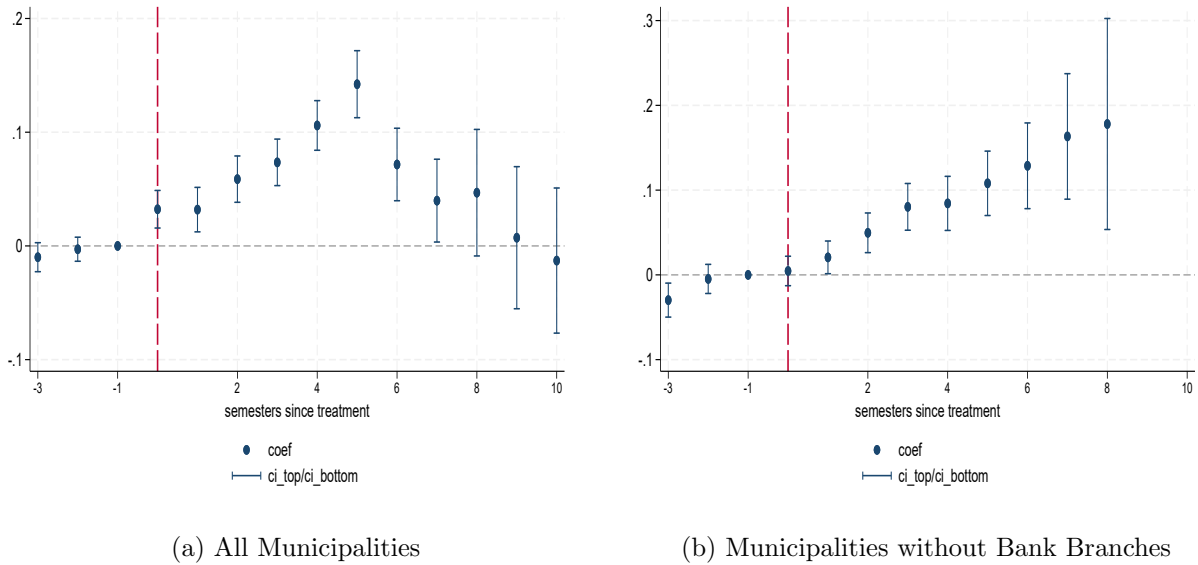


Figure 4: Total Credit

$\delta\tau$'s are estimated from Equation (1) with the number of total credit from the consumer’s perspective in the financial system, including banks, credit unions, and fintechs. Data collapsed at municipality m at the half-year t as the dependent variable using dynamic DiD. All other specifications: see footnote on Fig. 9

To investigate the separate impacts by private and public banks for different types of credit, I examined the distribution of payroll and personal loans, as well as the evolution of the respective number of clients taking new credit. I find that payroll loans expand both in private (up to 12%) and public banks (up to 30%) in response to more internet resources, with private banks also

expanding their customer portfolio (see Figure 10). Personal loans, which traditionally represent a smaller proportion of the credit market, expand in private banks both in terms of volume of credit and number of clients, while this is not the case for this type of credit in public banks (Figure 11).

Deposits In this section, I take advantage of the branch-level data to show how financial products behave differently for private and public banks in response to more technology. The results should be interpreted by taking into account three factors: (i) private and public banks have the same regulatory and supervisory framework; (ii) both types of banks will compete for similar clients; (iii) some products are predominant in public banks (e.g., subsidized credit to agriculture and real estate) while others are more concentrated on private banks (e.g., long-term deposits).

Short-term resources come both from the government and the private sector handed over to public and private banks (BCB, 2024). The volume of deposits in both accounts throughout the entire data set is roughly similar for both private and public banks. Still, I observe different patterns in response to technology. Panels (a) and (b) of Figure 12 shows a decrease of up to 60% in short-term deposits accumulated over five years in public banks compared to similar banks in municipalities without the same internet resources.

For private banks, although there is an initial increase in short-term deposits, the positive outcome post-internet is likely not sustained in the long-run because private banks have been closing. By contrast, public banks do not close their branches in response to more internet resources, so there is a natural decrease of short-term deposits among all branches that remain open, since part of customers now have other banking options available away from traditional channels through new internet players.

I also observe different patterns for long-term deposits and savings deposits in private and public banks, as summarized in Panels (c)-(f) of Figure 12. Long-term deposits, which are made up of more sophisticated savings products with varying portfolios of private and public bonds, escape private branches with more internet resources by up to 78% in five years.¹¹ Notice that what we are observing here is the volume of financial products at the *existing* open branches. The fact that private branches have been closing over time and we still see a decrease in long-term deposits suggests that this movement is indeed strong. We should also interpret these results by taking into account that, although the profile of customers of private and public banks may be similar on average (Almeida, 2022), private banks hold about 70% of long term deposits. In addition, private banks may be preferable for high-income individuals and firms (Mariano, 2015).

¹¹Recall that the values in the graphs are logarithmic, so the percentage difference should be calculated as $e^x - 1$.

No less important are the results for savings deposits. They can be considered a Giffen good because they are the worst alternative for savings in Brazil, in the sense that the yield is below inflation depending on the basic interest rate of the economy. Contrary to other forms of investment, there is no minimum amount to be retained in the bank, so usually, this product is the “first entrance” to saving in banks. With more internet, customers from both private and public banks drive away from savings deposits in traditional banks, a suggestion that customers are looking for more complex savings alternatives as new options are open with more internet resources. The decrease in the volume of savings deposits is more pronounced for public banks (-81% at the end of five years) than for private banks (-62%). Notice, however, that a strong pre-trend assumption in the regression could not be guaranteed for savings in private banks because the coefficients for pre-treatment were not statistically significantly different from zero.

Three pieces of evidence help corroborate the results that were obtained for savings and long-term deposits in this work. The first is the skyrocketing increase in the volume of long-term deposits through mobile banking, from 76 to 147 million reais between 2020 and 2021, a 93% increase in the period (Febraban, 2022)¹². The second comes from two recent surveys that show that long-term deposits from traditional banks have lost relative ground for similar products in digital banks (Falla, 2022). Third, there has been a detachment between long-term deposits and savings deposits in the months following the pandemic of Covid-19, with the first rapidly gaining ground while the last decreased (BCB, 2022).

7 Robustness Checks

In this section, I present evidence that suggests that, under the assumptions made in the DiD approach, the variation of the 4G network in Brazil is plausibly exogenous. We also corroborate this evidence by performing an instrumental variable analysis using lightning strikes as a geographical barrier to the 4G network as an exogenous source of variation in the speed of the implementation of the 4G network.

7.1 Event Study and the New Literature on DiD

Recent studies show that, in the presence of heterogeneous treatment effects, the coefficients on the leads and lags of the treatment variable in an event study might place negative weights on the average treatment effects for certain groups and periods (e.g., see (Goodman-Bacon, 2018;

¹²Local currency. In December of 2021: 1 US\$ = R\$ 5.5713 (BCB, 2021).

Callaway and Sant’Anna, 2019; de Chaisemartin and D’Haultfoeuille, 2020; Sun and Abraham, 2020). To address this concern, I follow the alternative regression-based model that is more robust to treatment effects than the classical dynamic treatment effects (TWFE) by using the shares of cohorts as weights, guaranteeing that the estimates are weighted averages of the underlying effects (as in Sun and Abraham (2020)). In particular, this method proposes an estimator that uses last-to-be-treated units as the comparison group rather than the not-yet-treated of the classical TWFE. Figure 13 illustrates the estimates using this more stringent specification, while the estimates for the financial variables are contrasted between the TWFE dynamic differences-in-differences (odd columns) and estimates using the proposal of (Sun and Abraham, 2020) (even columns) for private banks and branches in Table 3. All results are qualitatively similar.

7.2 Alternative Definition for 4G Network

To further probe the plausibility of the identification assumption, we conduct a falsification test and estimate a placebo DiD with a similar specification but advancing treatment in seven years, that is, with treatment starting in January of 2009. The variables of interest – banks, branches, credit, savings, and long-term deposits – do not have a distinguishable path for treated and untreated municipalities¹³. This is true for both the pre- and post-events, as the coefficients have high confidence intervals at non-statistically significant levels. This parallel trend of the variables in another time period increases the confidence in the identification assumption. In other words, in the absence of the 4G network, the group of affected and unaffected municipalities by the treatment would have continued on approximately parallel trends in the post-treatment period.

7.3 Lightning Strikes as an Instrumental Variable

Contrary to the main dataset used in this research, which was made available by a telecom private company that collected the information directly from the telecom carriers, the National Telecom Regulator (Anatel) officially recognizes that a municipality is covered by the 4G network when the signal was physically measured in loco. By that criterion, the 4G network only became available starting in September 2014. By July 2021, there were 5,329 municipalities covered with this mobile technology (95.6% of the total cities). Using this alternative definition, we run new regressions following the main specification (equation 1). The results are qualitatively similar under this alternative definition of treatment.

¹³Graphs and tables available upon request.

To single out the exogenous source of variation in the speed of regional 4G expansion, we adopt an instrumental variables approach that explores the mean frequency of lightning strikes per area of municipality using the World-Wide Lightning Location Network (WWLLN) dataset. The WWLLN provides the exact coordinates and time of all cloud-to-ground lightning strikes across the world which, in contrast to in-cloud lightning, is much more relevant in affecting the mobile infrastructure (Gurieva et al., 2021).

The identification assumption behind the IV approach demands two conditions. The first is the exclusion restriction, which is not directly testable but by inference we can plausibly conclude that the instrument affects $y_{m,b,t}$ only through its effect on internet expansion. In the context of this paper, the exclusion restriction is likely valid because the decision to close branches or provide credit is unlikely to be driven by weather conditions (except in extreme climatic cases).

The second condition is the “relevance restriction”, i.e., the incidence of the instrumental variables must be meaningful in explaining the speed of access to the internet (Angrist and Pischke, 2009). This condition is testable and is shown both graphically and numerically. Graphically, panel B of Appendix Figure 14 illustrate the relationship between the speed of the 4G mobile network adoption and lightning strikes. To capture the potential to explain the rollout of the internet connectivity, a dummy equal to 1 was associated with the IV above the national average. Numerically, the F-statistic of the excluded instrument is 34.46, which satisfies the usual ‘rule of thumb’ associated with the exclusion restriction. Given these results, it is possible to conclude that the chosen IV not only moves the 4G network in the predicted direction, but the concern of “weak instrumentation” does not seem to be relevant in this case.

The problem of selection bias is minimized in the IV approach by finding a variable (or instrument) that is correlated with the treatment (“availability of the 4G network”) but not correlated with unobserved characteristics affecting the outcomes. This instrument is used to predict the timing of the internet connectivity (Khandker et al., 2009). The ground for the identification of the mobile network evolution relies on the strategy of identifying natural and exogenous spatial barriers that explain why certain regions inside a country get connected before others. In this work, we explore the incidence of lightning strikes, which hinder the rollout of telecommunication technologies because the power surges associated with them will increase the costs of providing service and maintaining the telecommunications infrastructure. The frequency of lightning strikes has been shown to affect the diffusion of digital technologies due to an increase in the expected costs associated with voltage spikes and dips (e.g., Andersen et al. (2009)). The equipment needed

for mobile phone infrastructure, including the mobile broadband network infrastructure, is particularly sensitive to electrical surges caused by lightning strikes, which can lead both to immediate damage and quicker depreciation of equipment over time (Martin, 2016; Zedham and Day, 2014). Power surge protection can partially alleviate the problem, but it is expensive, not always effective, and less readily available in developing countries. Brazil, in particular, is a good example of where lightning strikes can be a relevant source of exogenous variation for the adoption of mobile networks, as the country is a world leader in lightning strikes, with an average of 77.8 million electrical discharges every year. This is explained by both the criteria of location and dimension – Brazil is the largest tropical country on the planet, and the tropics have the most storm-susceptible climate (Junior and Pinto, 2021).

We use the data from the WWLLN to calculate the average number of strikes of the respective polygon of the municipalities between 2014 and 2020. We consider that a municipality has a high frequency of lightning strikes if it is above the national median for this period. As both the endogenous regressor (availability of 4G) and the exogenous source of variation are at the municipality level, we estimate the following first-stage equation at the municipal-monthly level:

$$Mobile_{m,t} = \vartheta z_m + \beta_t X_{m,t} + \delta_\tau trend + \varepsilon_{m,t} \quad (2)$$

where $Mobile_{m,t}$ is a dummy variable that is equal to 1 when the telecom carrier starts to operate at the municipality, z_m is a dummy variable representing the high frequency of lightning strikes, $X_{m,t}$ is a vector of control variables, and $trend$ is a linear time trend to reflect the evolution of the 4G network over time. The vector of control variables aims to reflect the sociodemographic and economic features that help to explain access to the internet and contains the literacy rate, the share of the rural population, and the GDP of the baseline year (2012).

Assuming that a valid instrument z_m for the 4G mobile rollout is chosen, and following Wooldridge (2002) and Adams et al. (2009), a consistent estimate of the coefficient for the 4G network δ_τ is obtained by the following procedure:

1. Estimate a binary response model (e.g. probit) of δ_τ on z_m plus relevant controls. This model is adopted given the binary nature of the dependent variable (1 when the first telecom carrier starts to offer the service in the municipality).
2. Compute the fitted probabilities (δ_τ), reconstructing the initial date of the rollout by rounding up the fitted probabilities to the first integer and re-estimating the new dates (as in Belyadi

and Haghighat (2021)), now informed with the exogenous instruments and covariates.

3. Estimate $y_{m,b,t}$ by the IV-adjusted dates and the same structure of the DiD, to capture the coefficients over time, with the following specification:

$$y_{m,b,t} = \alpha_{m,b} + \lambda_t + \beta_t X_{m,b,t} + \Sigma_{\tau} \delta_{\tau} \widehat{Internet}_{m,t-\tau} + \varepsilon_{m,b,t} \quad (3)$$

where $\widehat{Internet}_{m,t-\tau}$ is a dummy variable that is equal to 1 if the municipality m is exposed to the technology in the new estimated date using the instrumental variable, and remaining estimators with the same specification of Equation 1.

This procedure is different from the traditional method of running an OLS regression of the outcome variable on the predicted value of the independent (endogenous) variable and controls. This is justified by the fact that the 2SLS has a number of shortcomings with binary endogenous variables. First, predicted values in linear probability models are not bound within the unit interval. This can contribute to heteroscedasticity in single equation models and lead to “awkward” interpretations of conditional probabilities (Wooldridge (2002), p. 455). In addition, as Moffitt, R (2001) and Wooldridge (2002) point out, neglecting to control for non-linearity in the first stage of the linear probability model can lead to inconsistent estimates in the second stage. By contrast, Chiburis et al. (2012) find that probit models tend to perform better than 2SLS when there are continuous covariates and treatment probability is close to 0 or 1. Both conditions are satisfied here. Moreover, as pointed out by Wooldridge (2002, p. 623), the usual test statistics and IV standard errors obtained through the application of probit in the first stage are still asymptotically valid.

The results of the IV regressions are displayed on Appendix Table 4. The coefficients are either confirmed or have a slightly lower coefficient by using the 2SLS/IV approach.

8 Heterogeneity Analysis

The internet has the potential to revolutionize banking services with significantly lower costs to individuals and firms, acting as a distribution channel for the banking industry (Barbesino et al., 2005). From the point of view of the industry, the arrival of new players brought by the internet generates even more pressure to increase efficiency and reduce costs (BIS, 2022).

To capture the impact of the internet resources on different segments of the population, we

estimate the outcome variables separately by GDP, literacy rate, and by the latest classification of municipalities in urban and rural (IBGE, 2017). The results can be found at the Appendix Table 5 and Table 6. We observe that private banks and branches are leaving municipalities with higher GDP, literacy rate, and urban populations. One exception is the closure of branches at rural municipalities more intensely than in urban places, which can be perceived as a source of concern from the point of view of access to banking services to this group, particularly by taking into account the relatively poor quality of internet services in this area (IICA, 2020). This is even more true when we consider that public branches might be leaving rural areas as well (Appendix Table 5).

I also observe some evidence that savings deposits in private banks persistently fall more in municipalities with higher GDP, literacy rate, and in urban areas (Appendix Table 6). This suggests that consumers of the big centres are taking more advantage of better savings alternatives than their peers in municipalities where there are not the same internet resources. This phenomenon can be even more intense than revealed by the regressions, given that we are observing the financial products of the existing branches, which are falling over time.

For public banks, there is some evidence that branches are closing in the poorest and rural municipalities over time, although this is not confirmed when we take the literacy rate into account. With public branches stable in the big centres, savings deposits and short-term deposits fall.

9 Policy Discussion

Several issues related to public policy emerge from this paper. The first refers to the distinct behaviours of public and private banks in response to more internet resources. While it is common knowledge that the private sector has more flexibility and agility in adapting to new technologies than governmental institutions (Gatautis et al., 2015; Li, 2005), this is the first paper that shows the unique patterns of private and public banks in response to ICTs in a developing setting. The fact that public banks are not sensitive to mobile networks while private banks tend to exit the markets as a consequence of more technology reflects their different management decisions. This is even more striking considering that, while private branches have been steeply declining in response to mobile networks, public branches seem to be slightly increasing, at least in the short run. These results show that policymakers must be attentive to the dynamic of the industry itself, particularly given the many changes that are expected to happen with bank digitization in the near future (Temenos, 2019).

The second implication of policy is related to the positive relationship between credit and mobile networks, a finding consistent with prior literature in other contexts ([Gupta et al., 2019](#); [Mdoe and Kinyanjui, 2018](#)). Access to credit can be especially transformative for individuals living in small municipalities, allowing smoother consumption patterns and local development.

The third policy implication is that while this paper shows that the 4G network is the first type of internet technology that caused an impact on the banking system, it is certainly not the last. The advent of new technologies such as the forthcoming generation of mobile networks (5G in the case of Brazil, 6G for other countries) promises to provide much faster connectivity, which may deepen the results that are observed in this work. As pointed out by the World Economic Forum when discussing the implementation of the 5G network, digitization must be rolled out across all sectors of the economy for it to work – both public services and the industry ([WEF, 2021](#)). To reduce the digital inequality that may be amplified with newer and more expensive technologies, there could be incentives for private stakeholders to make wi-fi service points available in public spaces such as schools and community centres. Another solution would be to strengthen the regulation of the sector to make sure that telecom carriers will provide the services in both economically profitable and marginalized communities, as was done with the implementation of the 3G network in the mid-2000s.

The final policy implication is related to the last, but from the banks perspective. As financial transactions get increasingly internet-dependent, more sophisticated products are also being created. The Brazilian IP scheme that enables users to send or receive payment transfers through banking apps in a few seconds (PIX) has the potential to lower financial costs and increase financial inclusion, but not all individuals can benefit with the same intensity of these services as the degree of connectivity varies within the country. The same can be predicted as happening when the Central Bank Digital Currency becomes a reality. In this sense, the new “technology run” from the banks’ side may also deepen the disparity between the rich and the poor.

10 Conclusion

There has been an increasing recognition that Information and Communication Technologies (ICT) are a key component of social and economic development, given their potential to integrate and accelerate innovation and social inclusion. The adoption of these technologies by citizens, governments, and firms is a relevant component to eliminating sources that generate and deepen structural disparities that already exist in Brazil. For the banking industry, in particular, internet resources

can create opportunities to expand forms of credit, more sophisticated savings mechanisms, and ease of making financial transactions with the press of a few buttons instead of having to travel to bank branches to obtain these services. In other words, reliable ICTs may lead to increased expansion of access to financial services in places where the population is scant or where the geographic or security conditions are difficult to overcome, in addition to providing the means through which individuals can seek information to help them make better financial decisions. However, this is possible only when there is reliable connectivity.

Promoting access to the internet involves taking care of technical, political, and regulatory aspects to guarantee sustainable transformation. Even though telecom service providers have a key role in expanding networks and developing new business models, Brazil's sociodemographic characteristics make the market much less attractive to the private sector in several municipalities. In particular, public policies targeted at universal access to the internet in the country still face the enormous challenge of reducing the digital divide, particularly for low-income households and those living in rural areas. Moreover, policies must not only expand access but also ensure the continuous improvement of networks. This component is important to ensure that individuals can develop the skills and capabilities to capitalize on the dividends of digital transformation.

ICTs are a potential tool to promote development. They can close information gaps and improve the efficiency of banking services, but these technologies also depend on factors related to differences in access. Poor, less educated or individuals living in rural areas will benefit less as they do not have the same access to the infrastructure of the internet and may not be able to afford computers or internet subscriptions. This means that the potential benefits for development originating from ICTs are diminished, as their gains come not only from the number of devices installed but also from the quantity, quality, and effective use of digitized information and communication in the system ([ECLAC, 2011](#)).

This work can be expanded to include the impact of mobile network availability on credit costs and credit delinquency. It is also important to examine the effect of the changing landscape of the banking industry on the real economy (e.g., employment, salaries, and GDP) as well as in the transmission of the monetary policy, since banking decisions might have spillover effects on the efficiency of interest rates to combat inflation.

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A Appendix

A.1 Figures

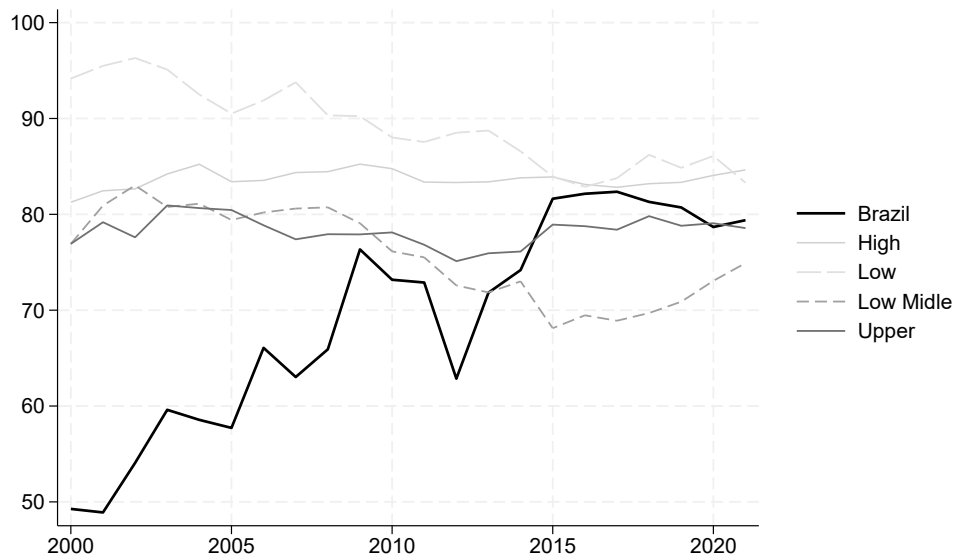
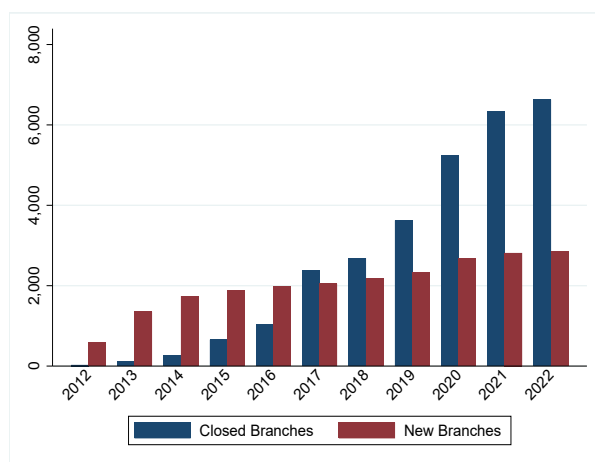
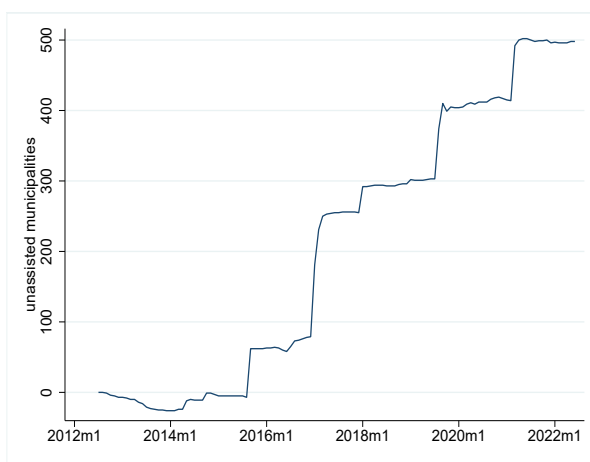


Figure 5: Evolution of Bank Concentration for Brazil and Selected Regions

Notes: Percent Share of Five Largest Banks. Data from the Global Financial Development Database (World Bank). Brazil is compared in bank concentration (percentage of share of assets of the five largest banks) to the average of high, upper-middle-, and low-income countries.

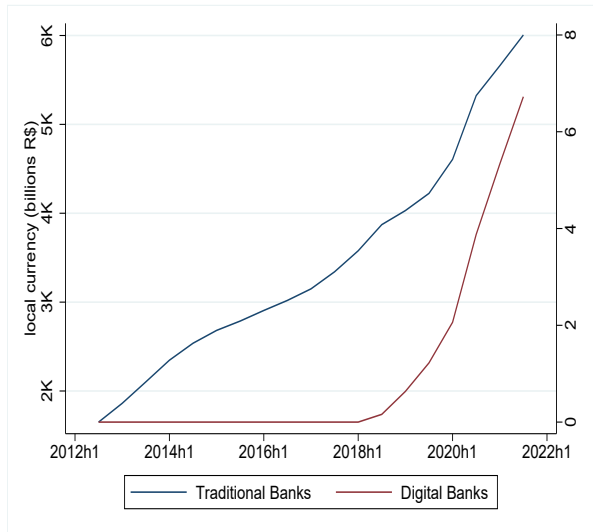


(a) Branches – incoming and outcoming

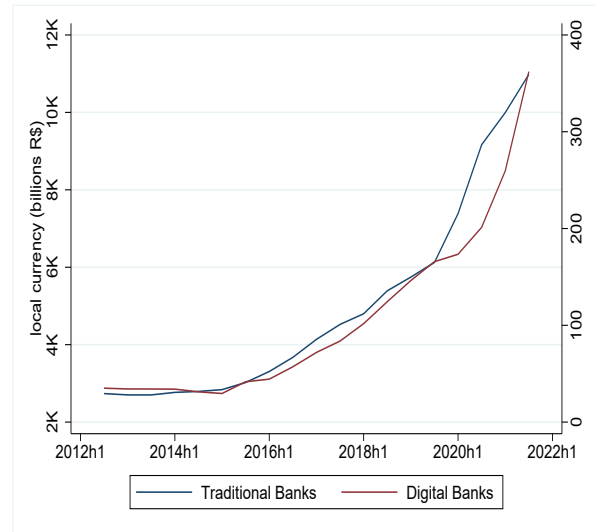


(b) Unassisted Municipalities

Figure 6: Incoming and Outcoming Branches and Unassisted Municipalities



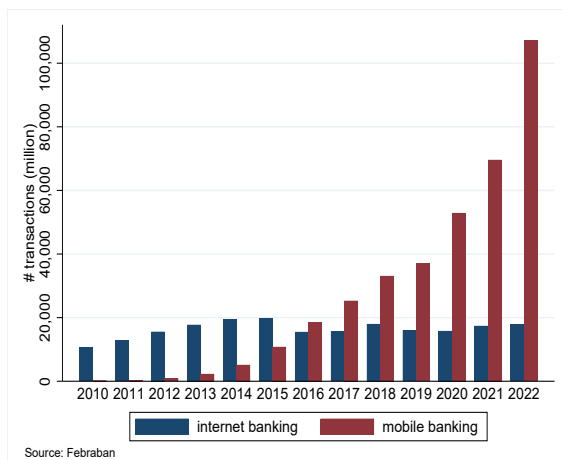
(a) Savings



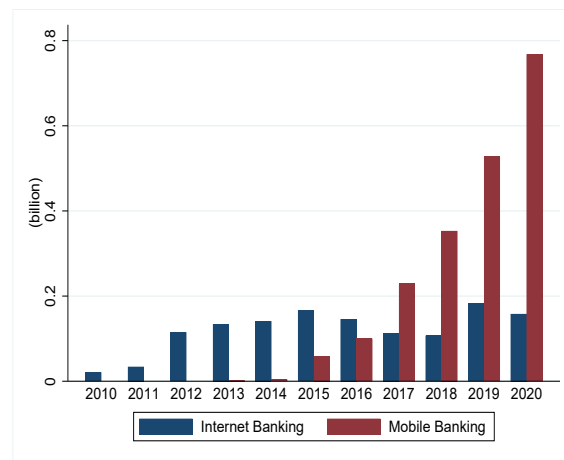
(b) Long-Term Deposits

Figure 7: Savings and Long-Term Deposits - Traditional vs. Digital Banks

Notes: volume of savings and long-term deposits in traditional (left) vs. digital (right) banks.

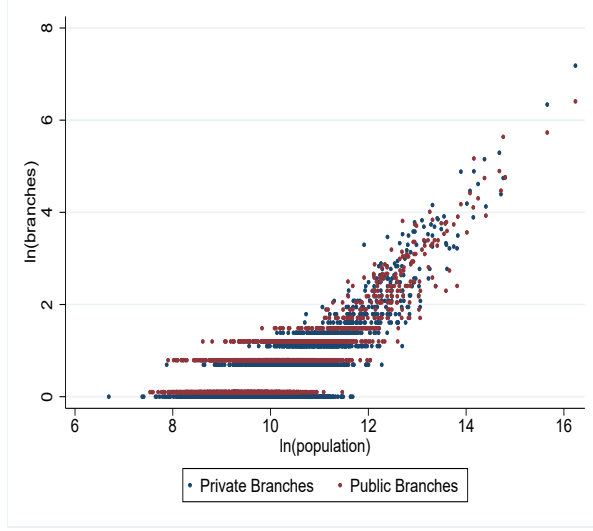


(a) Total Digital Transactions

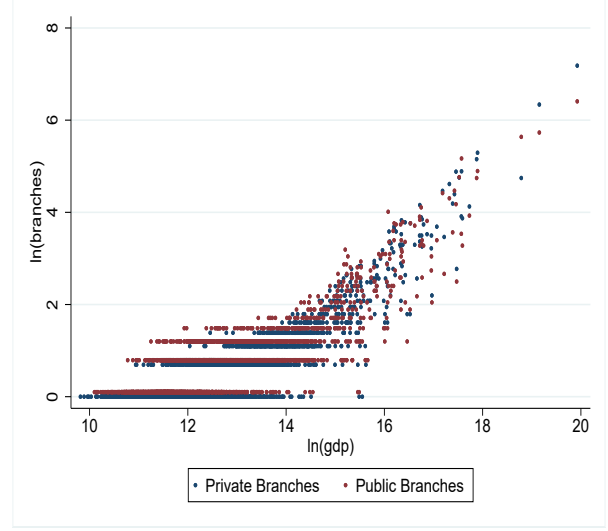


(b) Credit through Digital Transactions

Figure 8: Evolution of Digital Transactions

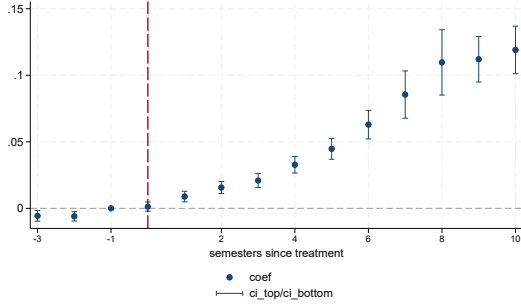


(a) Branches as a function of the population

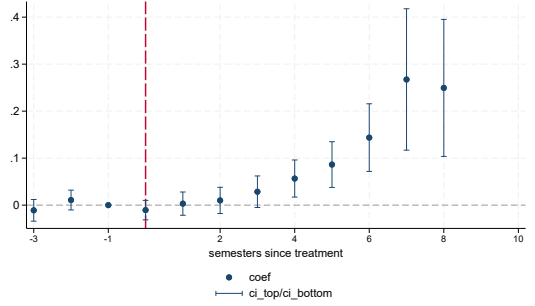


(b) Branches as a function of the GDP

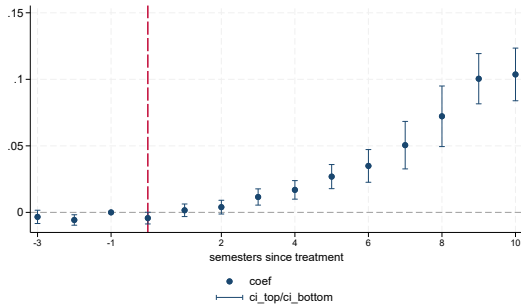
Figure 9: Distribution of Digital Transactions by Private and Public Banks



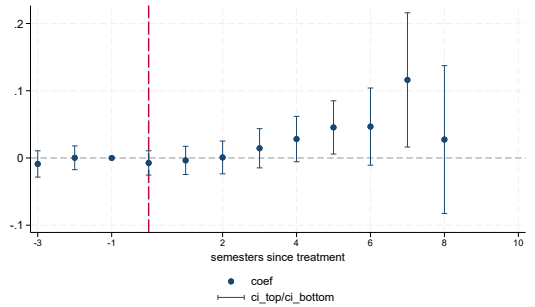
(a) Payroll Loans - Private Banks



(b) Payroll Loans - Public Banks



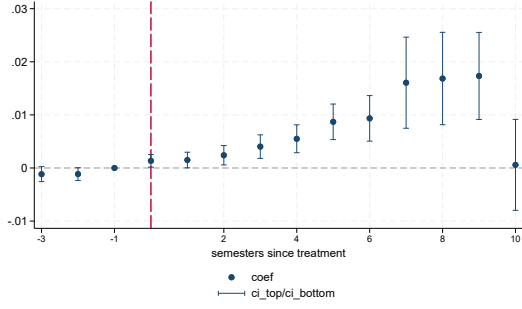
(c) Clients Payroll Loans - Private Banks



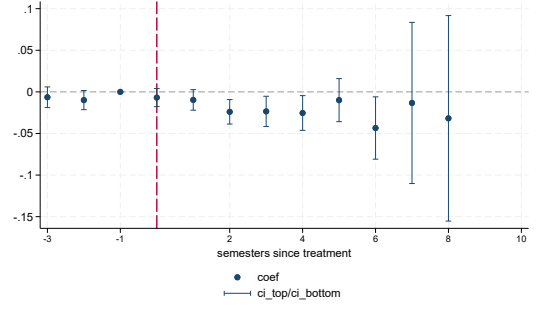
(d) Clients Payroll Loans - Public Banks

Figure 10: Payroll Loans

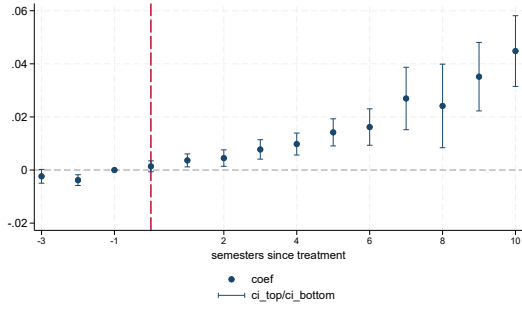
$\delta\tau$'s are estimated from Equation (1) with the log of each financial product per bank in municipality m at the half-year t as the dependent variable using dynamic DiD. All other specifications: see footnote on Fig. 2.



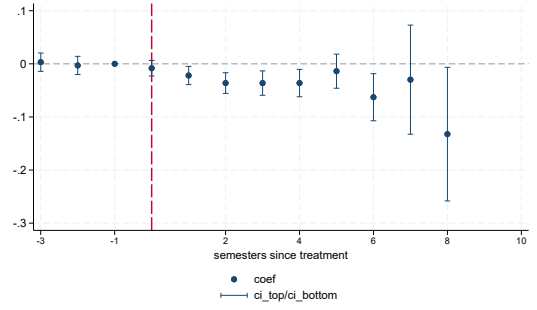
(a) Personal Loans - Private Banks



(b) Personal Loans - Public Banks



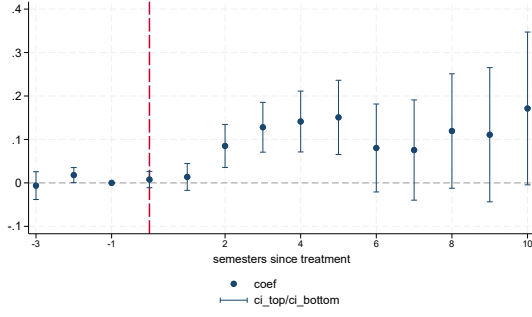
(c) Clients Personal Loans - Private Banks



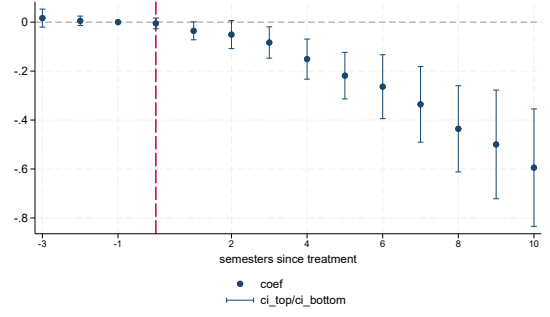
(d) Clients Personal Loans - Public Banks

Figure 11: Personal Loans

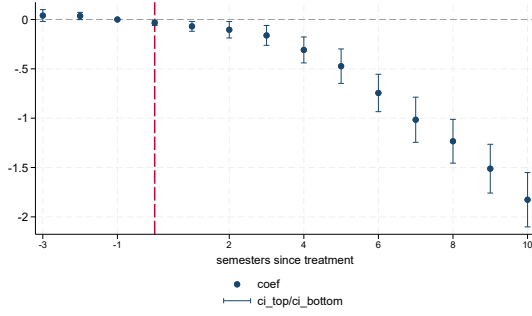
$\delta\tau$'s are estimated from Equation (1) with the log of each financial product per bank in municipality m at the half-year t as the dependent variable using dynamic DiD. All other specifications: see footnote on Fig. 2.



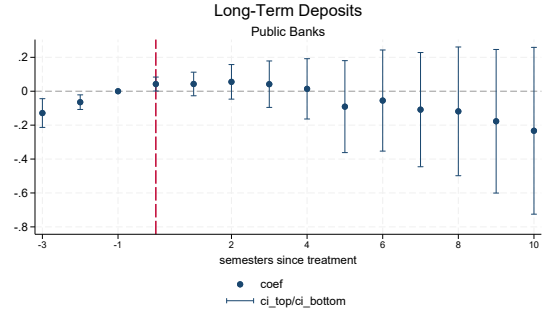
(a) Short-Term Deposits - Private Banks



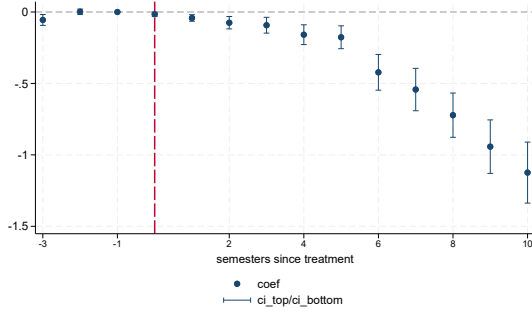
(b) Short-Term Deposits - Public Banks



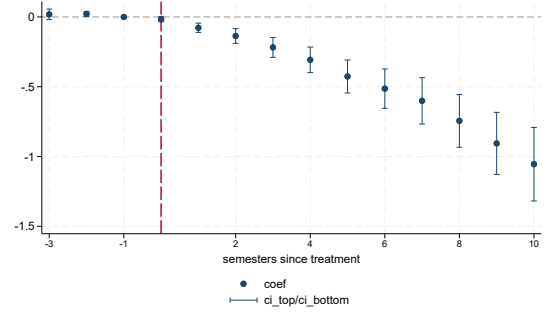
(c) Long-Term Deposits - Private Banks



(d) Long-Term Deposits - Public Banks



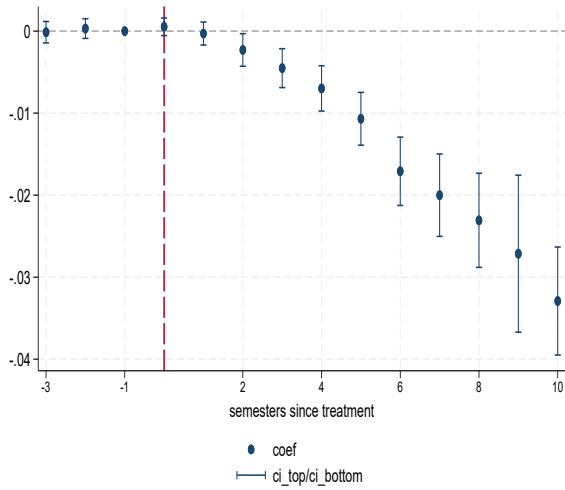
(e) Savings Deposits - Private Banks



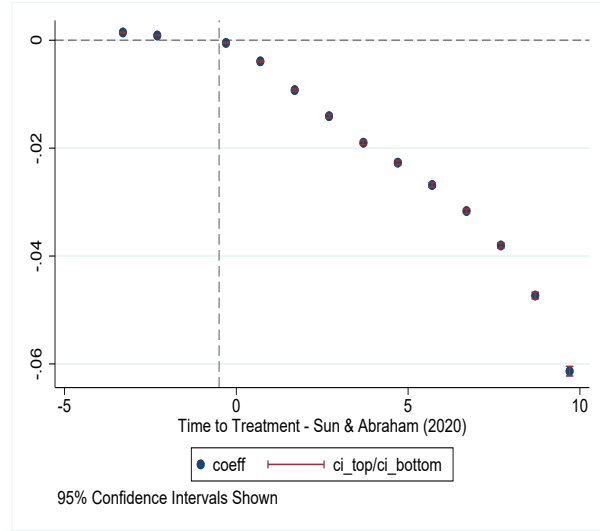
(f) Savings Deposits - Public Banks

Figure 12: Distribution of Deposits in Private (Left) and Public (Right) Banks

$\delta\tau$'s are estimated from Equation (1) with the log of each financial product per bank in municipality m at the half-year t as the dependent variable using dynamic DiD. All other specifications: see footnote on Fig. 2.

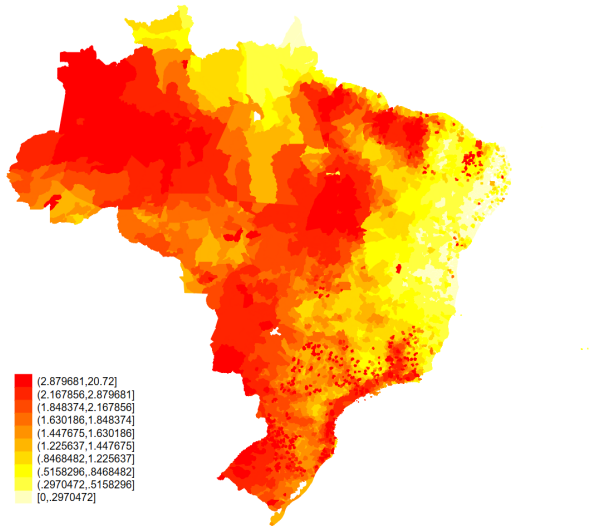


(a) Private Branches (Dynamic DiD)

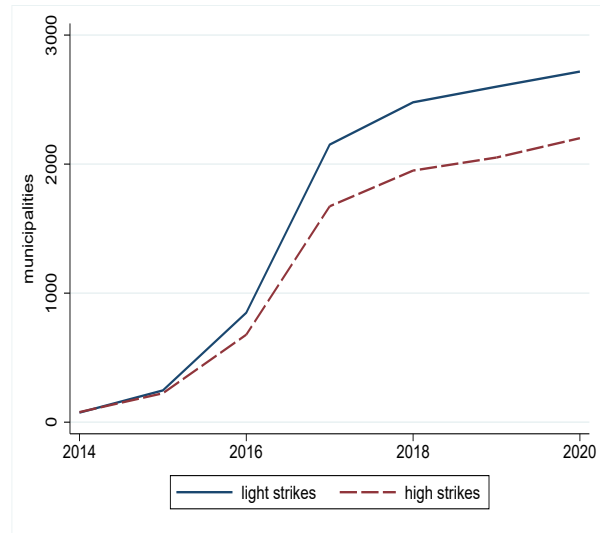


(b) Private Branches (Sun & Abraham 2020)

Figure 13: Contrast of DiD Methodologies



(a) Distribution of Lightning Strikes)



(b) Delay of the 4G Network Rollout vs. Lightning Strikes

Figure 14: Instrumental Variables and 4G Mobile Network

A.2 Tables

Table 2: Adoption of 4G Network and Demographic Profile

	Full	≤ 2016	2017-2018	≥ 2019
<i>Panel A: Regional Rollout of the 4G Coverage</i>				
% mun. with 4G	0.88	0.27	0.79	0.88
% mun. with 4G, SE	0.89	0.45	0.86	0.89
% mun. with 4G, SO	0.98	0.29	0.93	0.98
% mun. with 4G, CO	0.82	0.18	0.67	0.82
% mun. with 4G, NO	0.84	0.18	0.64	0.84
% mun. with 4G, NE	0.84	0.14	0.71	0.84
<i>Panel B: Internet Adoption</i>				
% households with Internet use	0.61	0.51	0.54	0.61
% households with mobile Internet use	0.22	0.22	0.25	0.25
Fixed broadband subscriptions per 100 people	17.1	13.03	14.91	15.59
Mobile subscriptions per 100 people	97	118	100	97
<i>Panel C: Demographic Profile</i>				
GDP per capita (2012)	15.80	21.88	14.54	11.51
Gini Index (2010)	0.50	0.49	0.50	0.53
Literacy Rate (2010)	0.85	0.90	0.85	0.81
Population (2012)	34,820	90,356	16,174	8,136
% Rural Population (2010)	0.36	0.20	0.39	0.49
Area Municipalities (sq. km ²)	1,525	1,144	1,489	1,899
Number of municipalities	5,570	1,526	2,903	489

Note: descriptive statistics of the treated mun. with 4G network. Column “ ≤ 2016 ” contains the subsample of mun. that gained 4G access between April of 2013 and December of 2016. “2017-2018” is for mun. that gained access to the 4G network between January of 2017 and December of 2018”, and “ ≥ 2019 ” is the subsample of municipalities that gained access between January of 2019 and August of 2020, the end of the dataset. Panel A: “% municipalities with 4G” refers to the share of cities with at least one telecom carrier for the 4G access in Brazil across regions (source: Teleco). Panel B: “% households with (mobile) internet use” is the share of households that report using (mobile) Internet (source: TIC Domicilios, Cetic). Broadband and mobile internet subscriptions per 100 people (source: World Bank). Panel C: demographic profile of the mun. that started having access to the 4G network in each period range (source: IBGE).

Table 3: Contrasting Dynamic DiD and the New Literature on DiD

	D: banksPr	SA: banksPr	D: branchesPr	SA: branchesPr
12 months	0.011*** (0.003)	-0.008*** (0.000)	-0.002 (0.001)	-0.009*** (0.000)
24 months	0.013*** (0.005)	-0.008*** (0.000)	-0.014*** (0.002)	-0.019*** (0.000)
36 months	0.011* (0.005)	-0.010*** (0.000)	-0.022*** (0.003)	-0.027*** (0.000)
48 months	-0.039*** (0.007)	-0.022*** (0.000)	-0.032*** (0.004)	-0.038*** (0.000)
60 months	-0.060*** (0.011)	-0.028*** (0.000)	-0.058*** (0.006)	-0.061*** (0.000)
Observations	33,338	32,742	60,900	60,900
Municipality-Bank FE	n	n	y	y
Time FE	y	y	y	y
Controls	y	y	y	y

Notes: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. “D”: dynamic differences-in-differences. “SA”: Sun & Abraham (2020) methodology applied (eventstudyinteract in Stata). Variables are in log. Panel regressions at the municipality-bank on a set of semi-year dummies around the event defined as the month upon which the municipalities of Brazil started to count on 4G mobile network. Time and municipality-bank fixed effects included, except for the regression on banks. Standard errors in parentheses are clustered at the municipality level.

Table 4: 2SLS/IV Regressions

	First Stage		Second Stage	
	Has 4G	+12 months	+24 months	+60 months
High Freq. L. Strikes(d=1)	-0.126*** (0.022)			
BranchesPr		-0.030*** (0.003)	-0.043*** (0.005)	-0.049*** (0.006)
BranchesPu		0.004* (0.002)	-0.014*** (0.003)	-0.026*** (0.004)
BanksPr		-0.022*** (0.007)	-0.050*** (0.013)	-0.073*** (0.022)
BanksPu		-0.012 (0.009)	-0.017 (0.013)	-0.017 0.017
CreditTPr		-0.009 (0.054)	0.059 (0.091)	0.201 (0.140)
CreditTPu		-0.967*** (0.165)	-1.714*** (0.251)	-2.333*** (0.346)
SavingsPr		-0.219*** (0.045)	-0.611*** (0.038)	-0.985*** (0.059)
SavingsPu		-0.916*** (0.136)	-1.701*** (0.186)	-2.331*** (0.264)
STDepositsPr		-0.124*** (0.052)	0.127* (0.068)	0.294*** (0.078)
STDepositsPu		-0.541*** (0.148)	-1.115*** (0.226)	-1.446*** (0.356)
Observations	64,619		See Notes	
F-stat of excluded instrument	34.46	-	-	-
Extended list of controls	y	y	y	y
Municipality-Bank FE	y	y	y	y
Time FE	y	y	y	y

Notes: the first stage of the 2SLS/IV regression was estimated by using a probit model to calibrate the entrance of the 4G network given the high frequency of lightning strikes, plus relevant controls (share of rural population, literacy rate, and GDP of the baseline level). The model also included a separate linear time trend to capture the growth of the mobile network over time (as in (Gurieva et al., 2021)). The predicted value of the first stage regression ($\hat{p}$) was estimated and the standard threshold of non-linear models was applied ($\hat{p} > 0.5$) to consider when the municipality started being covered by 4G mobile network (Belyadi & Haghighat, 2021). The IV is a dummy variable to reflect the high-frequency of lightning strikes and controls are in logarithm form. Sources: strikes (WWLLN), time trend (Teleco), branches (Central Bank of Brazil), all others (IBGE). Number of observations varies according to the outcome of interest.

Table 5: Heterogeneous Analysis - Branches and Banks

	GPD		Literacy Rate		Rural Population	
	d=1	d=0	d=1	d=0	d=1	d=0
BranchesPr	-0.077*** (0.004)	-0.032*** (0.010)	- (0.010)	-0.037*** (0.010)	-0.084*** (0.030)	-0.060*** (0.003)
BranchesPu	-0.009 (0.009)	-0.026*** (0.006)	-0.018* (0.010)	0.011 (0.013)	-0.022* (0.012)	-0.009 (0.012)
BanksPr	-0.101*** (0.024)	-0.052*** (0.008)	-0.122*** (0.029)	0.021 (0.020)	0.032 (0.021)	-0.087*** (0.014)
BanksPu	-0.039* (0.016)	0.006 (0.019)	-0.050* (0.022)	0.032* (0.017)	0.008 (0.029)	-0.008 (0.013)
Observations	31,945	28,953	16,158	15,437	2,082	29,513
Municipality-Bank FE	y	y	y	y	y	y
Time FE	y	y	y	y	y	y
Controls	y	y	y	y	y	y

Notes: *** p<0.01, ** p<0.05, * p<0.1. Abbreviations are used for private (Pr) and public (Pu) banks. The dummies 'd' for GDP and literacy rate are 1 if above median of national average of the GDP (2012), and literacy rate (2010). Rural and urban are defined according to IBGE (2017). All regressions are weighted by the population of the baseline level and include time and municipality-bank fixed effects (except for the regression on banks, which only allows municipality fixed effects). Standard errors in parentheses are clustered at the municipality level. Coefficients correspond to the end of the five-year period post 4G implementation. The regression of private branches segmented by high levels of literacy rate did not return valid results.

Table 6: Heterogeneous Analysis - Deposits

	GDP		Literacy Rate		Rural Population	
	d=1	d=0	d=1	d=0	d=1	d=0
SavingsPr	-0.671*** (0.057)	-0.165*** (0.036)	-0.715*** (0.075)	-0.406*** (0.115)	-0.643 (0.087)	-1.003*** (0.065)
SavingsPu	-1.589*** (0.340)	-0.044 (0.087)	-1.431*** (0.251)	-0.353** (0.165)	-0.176 (0.125)	-1.583*** (0.279)
STDepPr	-0.281 (0.688)	-0.052 (0.055)	0.262*** (0.114)	0.159 (0.122)	0.106 (0.259)	0.131 (0.109)
STDepPu	-0.981*** (0.369)	-0.067 (0.098)	-0.892*** (0.243)	0.044 (0.182)	-0.381*** (0.168)	-0.940*** (0.273)
LTDepPr	-0.468 (0.580)	-0.683*** (0.106)	-0.935*** (0.416)	-0.934*** (0.152)	-0.557*** (0.211)	-1.198*** (0.418)
LTDepPu	-0.874*** (0.322)	0.089 (0.216)	-0.684 (0.427)	0.235 (0.248)	-0.413* (0.224)	-0.319 (0.310)
Observations	35,233	25,655	36,133	31,121	3,984	66,281
Municipality-Bank FE	y	y	y	y	y	y
Time FE	y	y	y	y	y	y
Controls	y	y	y	y	y	y

Notes: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. Abbreviations are used for private (Pr) and public (Pu) banks, and STDep and LTDep correspond to the short- and long-term deposits. The dummies for GDP and literacy rate are 1 if above median of national average of the GDP (2012), and literacy rate (2010). Rural and urban are defined according to IBGE (2017). All regressions are weighted by the population of the baseline level and include time and municipality-bank fixed effects. Standard errors in parentheses are clustered at the municipality level. Coefficients correspond to the end of the five-year period post 4G implementation.

Table 7: Dictionary of Variables

Variable	Type	Symbol	Source of Data	Unit of Measurement
Branches per Bank	Outcome	Branches	Central Bank of Brazil	Unit
Banks	Outcome	Banks	Central Bank of Brazil	Unit
Assets in Branches	Outcome	Assets	Central Bank of Brazil	Real BR Currency (R\$)
Short-Term Deposits	Outcome	STDep	Central Bank of Brazil	Real BR Currency (R\$)
Long-Term Deposits	Outcome	LTDep	Central Bank of Brazil	Real BR Currency (R\$)
Savings Accounts	Outcome	Savings	Central Bank of Brazil	Real BR Currency (R\$)
Total Credit	Outcome	CreditT	Central Bank of Brazil	Real BR Currency (R\$)
Population	Control	pop	IBGE	Unit
Population Density	Control	popdens	IBGE	Unit/square km ²
Literary Rate	Control	ltrcy	IBGE	Percentage
Rural Population	Control	rural	IBGE	Below or above median
4G Network	Treatment	fourg	Teleco/Anatel	1/0
Lightning Strikes	Instrument	strike	WWLLN	1/0