

INTERCHANGE FEE REGULATION AND CARD PAYMENTS: A CROSS-COUNTRY ANALYSIS

Guerino Ardizzi, Diego Scalise and Gabriele Sene

Discussion by Emerson Erik Schmitz, Banco Central do Brasil

Summary

- ❖ Policy actions to limit interchange fees can spur the diffusion of electronic payments.
- ❖ The authors use:
 - ❖ panel data analysis to estimate the direction and the magnitude of the relationship between the number of card transactions per capita and interchange fees;
 - ❖ a diff-in-diff approach to compare the variation in card payments' usage in EU members after the introduction of the interchange fee regulation (IFR) in 2015, using selected countries as control group.
- ❖ Results
 - ❖ They find a negative and significant relationship between the number and growth rate of card-based transactions per capita and interchange fees; and
 - ❖ A strong and one-off impact of IFR and a considerable propagation effect in the following years.

Contributions

- ❖ The authors use a novel and very interesting dataset (Data comprises 60 countries over 10 years, from several sources - Fed Kansas Cty, Visa and Mastercard, ECB, BIS and national central banks);
- ❖ The paper emphasizes the importance of regulating interchange fees and its impact on the diffusion of electronic payments; and
- ❖ It is an important contribution to a scarce stream of literature, with an open avenue for future empirical research

Comments

- ❖ Cross-country vs within-country studies
 - ❖ I am not sure that a cross-country study offers more explanatory power than within-country ones when it comes to identifying a causal relationship;
 - ❖ Although the dataset used in the paper is very interesting and comprehensive, but it may lack useful information that only an in-depth country-specific analysis could provide.
- ❖ Fixed-effects
 - ❖ Country and time fixed effects applied separately imply that country characteristics do not change over time (except GDP, which is considered as an individual control variable);
 - ❖ Ideally, a regression with country and time fixed-effects (interaction) could improve the analysis (more detailed data), as long as country-specific factors may also vary over time (other reforms besides a cap on interchange fees, competition, etc). In this case, GDP would lose its purpose.
 - ❖ Among country-specific effects that may vary, I highlight competition in card payments' industry and digitalization of the financial system.

Comments

❖ Causal relationship

- ❖ Since more competition or digitalization could have been the triggers for the rise of cards' usage in all countries considered in the study, it is not clear whether lower interchange fees are a causal effect for the diffusion in electronics payments;
- ❖ Moreover, EU member countries could have experienced this trend more intensively than other countries.

❖ One-off impact

- ❖ The impact of the regulation on interchange fees is gradual, and the transmission needs to pass-through to MDR in advance; additionally, the pass-through of lower MDR to more card transactions implies also a gradual effect and price differentiation in the front-end of consumption (consumers are not usually aware of the intricated fees' scheme in cards' industry).
- ❖ I suggest point-estimates (2015 as basis) instead of one single dummy (diff-in-diff) to account for gradual effects of the regulation

Comments

- ❖ Treated and control groups
 - ❖ I suggest to carry out a deeper investigation on other measures (besides IF) that could have affected sample countries' card payments' market.
 - ❖ For instance, Brazil has passed through important reforms in order to unbundle card payments' industry in the last decade, which certainly contributed to a more competitive market and lower interchange fees; and Brazil also implemented a cap on debit cards' interchange fees in 2018.
- ❖ Minor comment: Kay et al., 2014 is missing in the references
- ❖ Future empirical research
 - ❖ We are specially interested in some lines of future research, which could eventually be done with joint efforts:
 - ❖ Contribution of merchant adoption and card usage to the dynamics of cards transactions;
 - ❖ Existence of a threshold under which further cuts in IF would lead to decrease in cards transactions; and
 - ❖ The impact of instantaneous payments network on consumers' payment behavior and on cards' industry.