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# Interchange Fees: Regulations and Implications Discussion

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The views expressed are those of the rapporteur and do not represent the views of De Nederlandsche Bank nor the ESCB.

## Zhu Wang: IF Cap Regulation

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- In equilibrium, small ticket shops do not “swallow” the higher fee but opt for cash. Is this strong “merchant resistance” really observed in the market? Could a ban on the NSR change the outcome? How?
- Ubiquity plays an important role. Is there an empirical justification? Could you “estimate” this function from the data?
- The European Commission applies the “Tourist test”, how does this test relate to the current IF price cap in the US?
- Potential scaling problem? Small ticket vs large ticket shops, but goods prices seem to be equal...

## Marianne Verdier: Innovation

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- Who are the real innovators in the payment market? Issuers, acquirers, card networks, or non-banks? Product- or process innovation? Investment in quality looks like an “upgrade” of an existing instrument. Is that socially efficient in the long run?
- Cash carries no IF. Why not model cards vs an innovation (like a mobile payment instrument)? But how does the “future” business model look like? Will the old “credit card model” also apply to “new” payment instruments? Is an IF likely for mobile/cloud payments where the Telcos and Googles enter the arena?
- Where does competition end and competition start (regulatory transparency)? How do you encourage innovation among the players in the industry when cost recovery is difficult?

## Allan Shampire: Australian Experience

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- In the base case, the “two-sided” total price decreased, but what happened to the price structure? Could you possibly identify and separate these effects on total card usage? What happened to merchant card acceptance in Australia?
- Banks always look for ways to counter revenue losses---i.e. “unintended” consequences of regulation---how did banks compensate in Australia?
- What was more important: the IF cut or banning NSRs? Can you separate these effects? Is there a goods price effect? A lower cardholder fee may be compensated by higher prices. Do merchants really like banning NSRs?
- Not sure the data can really tell: 12 obs and R2s near one...

## Chun-Yu Ho: Chinese Debit Cards

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- What are the welfare effects of the observed price discrimination schemes? Does it inhibit merchant acceptance?
- Do credit cards play any role in China? Why (not)? Is competition between debit and credit expected anytime in the near future?
- How do the Chinese take up credit? Is there a credit functionality (overdraft) associated with the debit card? If not, why is the merchant fee not flat for Chinese debit cards?
- China could be the driver for a lot innovation. What about innovation in the payment industry---are mobile and internet payments gaining ground in China? Any clue how the pricing of such new schemes will develop?