

Payments Pricing: Who Bears The Cost? 2009 Payments Conference

Panel: Examples of Public Intervention

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Three Questions

- When should public authorities intervene in payment markets?
- What are the costs and benefits of your regulations on pricing of payment instruments?
- How do you balance private sector incentives to innovate with regulating payment services to improve consumer and merchant welfare?

When should public authorities intervene in payment markets?

- What makes payment markets so special? Payment is the quintessential economic activity that binds together the gains from trade.
- Payment pricing and competitive efficiency attracted antitrust scrutiny in many jurisdictions.
- The central issue is whether circumstances of a specific market under consideration are such that public intervention can be expected to improve economic welfare.

- Is the market outcome “unfair” or inefficient?
 - consumption of payments involves two sides
 - price structure matters for payment volume
 - demand conditions play an important role
 - merchant pricing restrictions often observed
 - “merchant resistance” to accept high payment fees
 - payment competition can also entail pricing distortions

What are the costs and benefits of your regulations on pricing of payment instruments?

- Poor market performance alone does not imply that intervention will improve matters.
- Analysis indicates that determining efficient and “fair” payment prices can be a complex and difficult task.
- Possibility of unintended, adverse consequences from otherwise well-intentioned regulation and intervention. Is there an information problem?

- Ideally, society will be best off when it relies on the most efficient payment system.
- The ongoing shift from cash and paper towards electronics potentially confers large economic benefits.

But card payments in particular have remained expensive for merchants.

How do we win this “war on cash”?

How do you balance private sector incentives to innovate with regulating payment services to improve consumer and merchant welfare?

- There exists a fine line between cooperation and competition in payment markets. Clarity and transparency are needed here.
- Heavy regulatory burdens will frustrate dynamic efficiency and innovation. How do you encourage innovation among the players in the payment industry?

Wrapping up

- Theory alone is not enough. We also need to look at the facts.
- “What role for public authorities?”
Continue collecting payment information, including data on the costs of alternative payment mechanisms and instruments, the nature of merchant acceptance decisions, and the market structure for issuing and acquiring.
- Let s turn to our panelists!