Comments to: “Effects of regulating debit card interchange fee: evidence from Brazil”

Daniel Tavares de Castro, Emerson Erik Schmitz & Monique de Abreu Azevedo

Carlos A. Arango-Arango
Banco de la República de Colombia

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Policy justification

- Lack of transparency in pricing in the card industry:
  - Consumers do not have clear price signals to choose efficiently
  - Interchange fees (IF)' setting and its impact on the merchant discount rate (MDR) undermines competition
- Objectives of the IF intervention:
  - Promote debit card usage (claims it is most efficient)
  - Provide more transparency in pricing (claims debit should be cheaper)
  - Reduce cross subsidies among debit and credit cards (claims it is present)
  - Prevent overuse of the less efficient payment instrument (claims it is credit cards)

What the paper does

- Measures empirically the impact of IF regulation (IFR) of debit cards in Brazil (October 2018, 0.5% average and 0.8% max).
- Impact on:
  - Card issuers´ IF-revenues of debit and credit cards (decline on debit but not credit)
  - Debit and credit card MDRs (64.3% pass-through over a year for debit cards)
  - Debit and credit card usage (no effect)
  - Debit card scheme fees paid by card issuers and acquirers (no effect)
- Uses quarterly panel data for the period 2016Q1-2020Q1. I guess on 8 to 16 card issuers (acquirers) depending on the model.
- Uses pre-post and dif-in-dif panel fixed effects techniques to identify the impact of the IFR.

Comments: methodology

- Would the impact of the IFR be heterogeneous? Large versus small card providers? Do units face different trends? and how could this be used in estimation?
- I am not sure the credit card side of the market could be called a control group in the estimations of the MDR models:
  - Debit and credit cards are distinct payment instruments
  - The control and treatment units choose their debit and credit strategies simultaneously
- Omitted variables: Would interest rates matter?
- Possible endogeneity: (i) retail sales as an alternative to trends in the revenue models (ii) $\ln(POS_t)$ in the usage models (iii) the Lerner´s index in the MDR models.

Comments: methodology (cont.)

- Not clear what criteria was used to define outliers and in what direction they were affecting the results.
- IFR may affect other pricing dimensions like fixed fees, as in other jurisdictions. Any evidence in Brazil?
- Models of merchants 'acceptance rates (EFTPOS) as well as card issuance could also be estimated.
- One year to evaluate the impact might not be enough. It is a shame 2020 coincides with the pandemic.

Editorial comments

- A more thorough citation of the work done in Brazil for the statements supporting the intervention.
- Better link between results and policy implications:
  - There is already differentiation of MDRs between debit and credit cards.
  - Non of the results point at promotion of competition due to the IFR.
  - "The CAP may encourage the demand for a cheaper payment instrument (debit) over time." But the results do not show evidence in this regard.
- A bit more illustration about the time series behavior of different units to motivate possible heterogeneous effects.
- Better positioning of the results on the difference between the MDRs for debit and credit cards (price differentiation).
- Spell out the results of the tests performed for stationarity and other tests not reported.