Customer choice and behaviour in the light of increasing digital payment options

Discussion

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S V E R I G E S   R I K S B A N K

Björn Segendorf
Senior Adviser

Why use or subscribe on a payment service?

Usability

- Network effects, critical mass, 2-sided markets
- Convenience

Safety

- Trustworthy payment service provider
- Trade off between safety and convenience

Price

- Economies of scale

A legacy problem

- Incumbent payment services often enjoy an initial competitive advantage
  - A high cash usage makes cash cheap and other payment services relatively more expensive (Hungary, Germany, Japan)
  - If cards are dominant at the point of sale it may be difficult to launch non-card based alternatives (Sweden?)
  - In a country with a banked population, the bank account is the natural starting point
- On the other hand…
  - A large share of unbanked consumers may turn to alternative suppliers of payment services (China, Kenya)
  - Non-banks with a critical mass of consumers signed up can use this to counter and overcome the incumbents advantage (China)

The two studies

- Korella
  - Striking differences in payment behavior between Germany and (metropolitan) China
  - Large differences in the countries’ institutional set up
  - Interesting discussion on drivers that could explain the differences

- Ilyes and Varga
  - Large and complete data set allowing for a comprehensive analysis of payment choices
  - Store size most important factor for card acceptance
  - Interesting non-monotonic relationship between payment value and card usage

Difficulties to address

- Most of the literature is descriptive – we ”observe” the outcome but only guess ”why”
  - Possible difference between statistical and casual relationships
- The pricing of payment services towards consumers and businesses is to a large extent left out
  - Important but difficult to get data on
- The choice situation differs a lot between small and large businesses
  - Small businesses have a binary choice, e.g. card or no cards
  - Large businesses have with several cash registers may take cards at one, several or all cash registers

A question to Ilyes and Varga

- Your data is from the years 2015 and 2016

- Interchange Fee Regulation (4-party schemes)
  - 2015-12-09: caps interchange fees for debit- and credit cards to 0.2 per cent and 0.3 per cent.
  - 2016-06-09: detailed merchant fee specification, honor all cards rule no longer applies, separation between scheme and processor

- The pricing of debit- and credit cards may have changed within the observed period
  - Are there changes in card acceptance relationships between 2015 and 2016?
  - Are there changes in card acceptance relationships between Q1-Q2 and Q3-Q4 in 2016

A question to Korella

- The logic behind two-sided markets works both ways
  - Critical mass attracts users on the other side but loss of mass may make them abandon a payment method

- Sweden
  - Only 15 per cent of POS transactions are made in cash
  - Cash is costly for businesses
  - How low can the cash usage be before merchants stop accepting cash?
  - 50 per cent of the merchants thinks they have stopped 2025 or earlier

- Metropolitan China has a share of cash close to that in Sweden. Change seem to be fast. When will the Chinese merchants stop taking cash?

Summing up

- Two interesting but different papers
  - One that describes two very different countries
  - One that builds on a huge and complete data set
- Common theme: the slow or fast adoption on electronic payment services
  - Snaphots of long-term changes in the retail payment landscape
  - Countries move at different speed but in the same direction
- Sooner or later there will be implications for cash
  - Understanding the choice of payment methods may allow policymakers to be proactive

The demand for cash – the other side of the coin

Cash in circulation outside the bank sector