

Payment System Efficiency and Pro-Competitive Regulation

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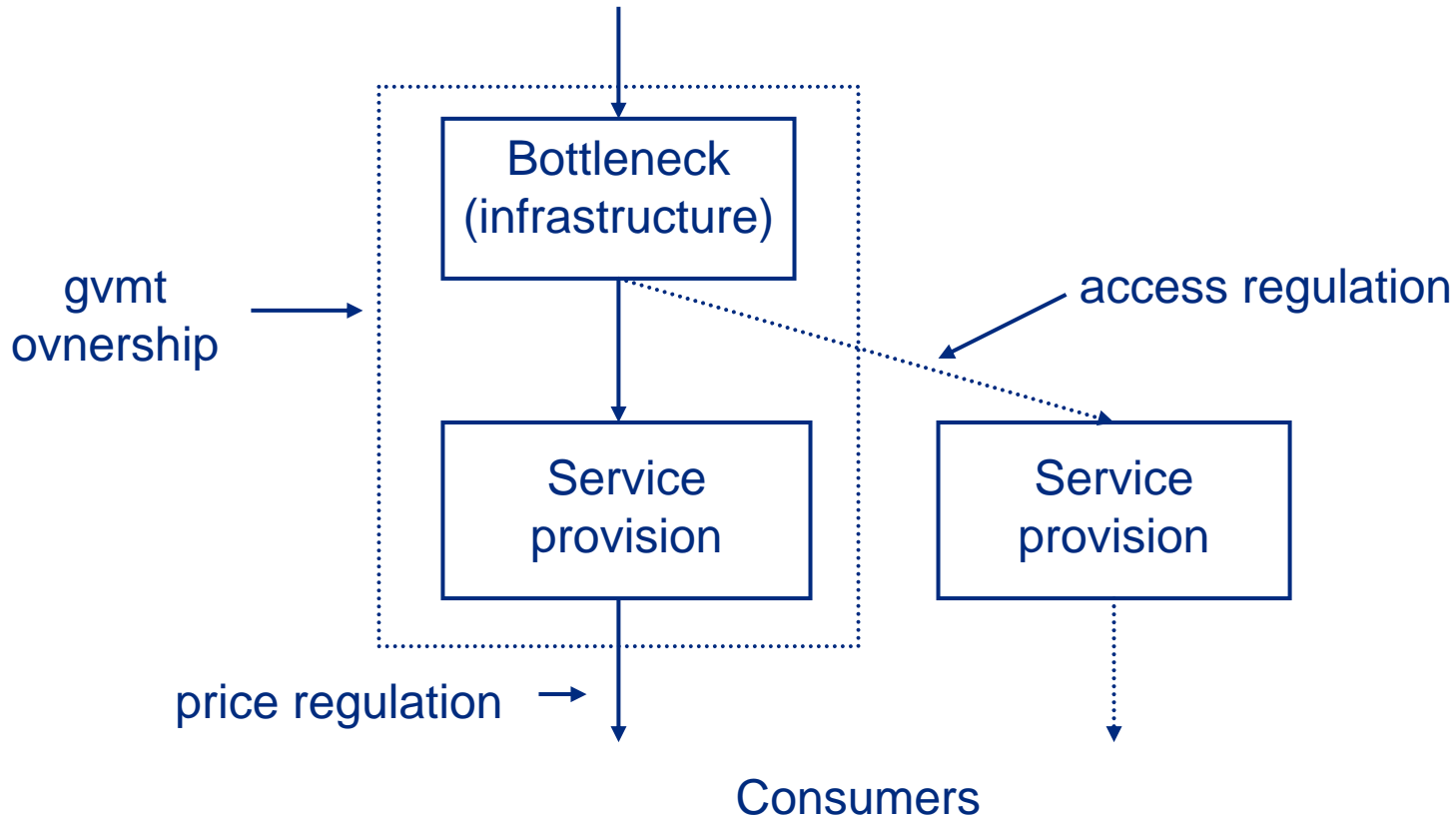
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- Why is there so little market-power motivated regulation of payment systems, when the telecom infrastructure is heavily regulated?

- Answer 1: Some competition in payment infrastructure. In other network industries, there is often just one infrastructure
- But concentration is increasing in payment infrastructure and falling in (mobile) telephony infrastructure.

The bottleneck problem



Policies for bottleneck control

Regulatory

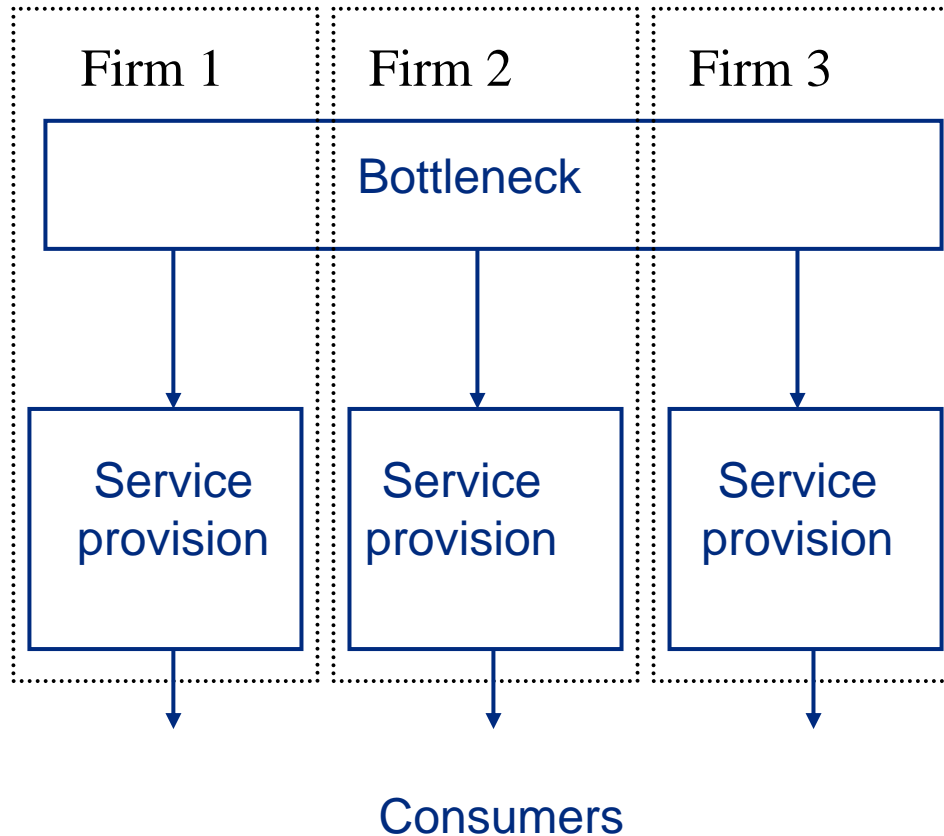
- Consumer price regulation
- Access price regulation
- Government ownership

Structural

- Vertical separation
- Horizontal separation
- Infrastructural clubs

- Answer 2: Payment systems are set up as infrastructural clubs. In other networks industries, single firms own the bottleneck.
→ Less need for regulation of payment systems.
- But there are potentially market-power related problems with infrastructural clubs.

Infrastructural clubs



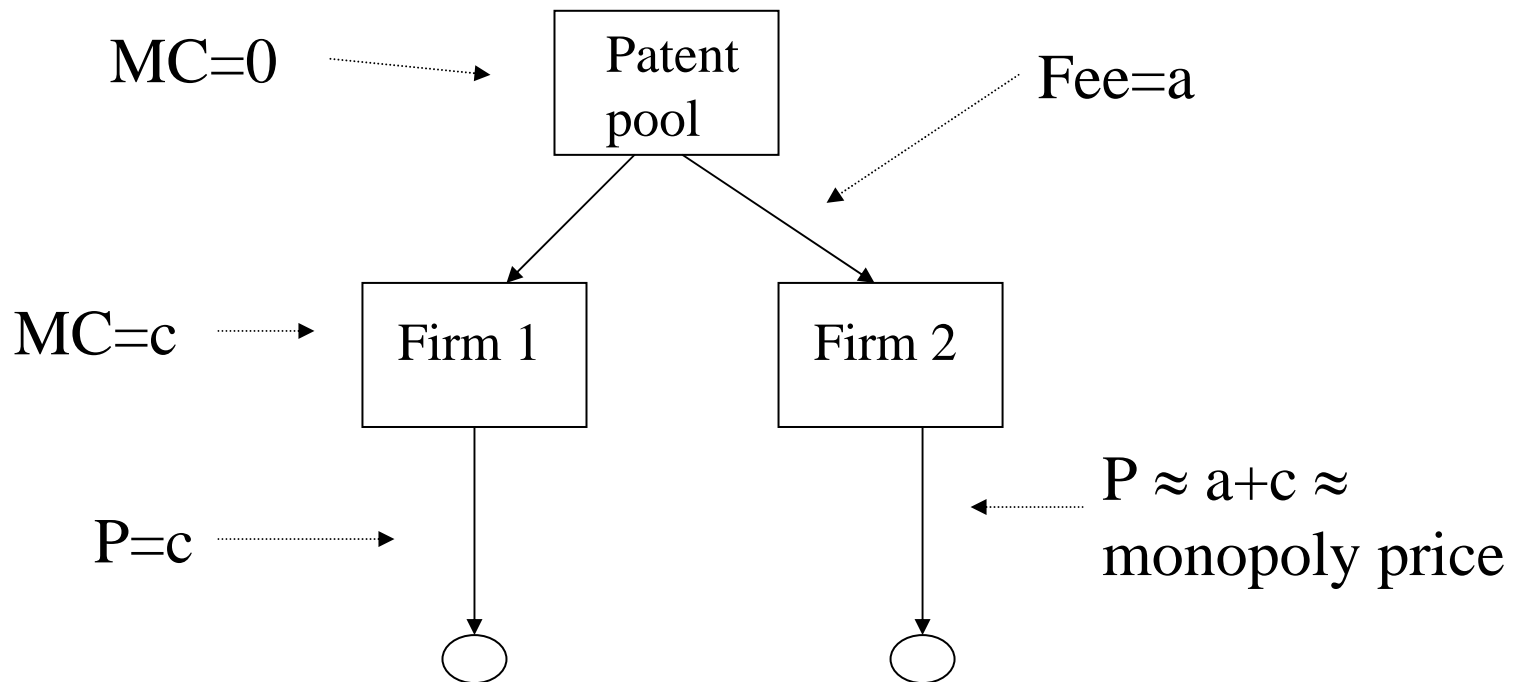
Infrastructural clubs - *pros*

- Self regulating, at least to some extent
- Vertical synergies can be exploited, at least partially

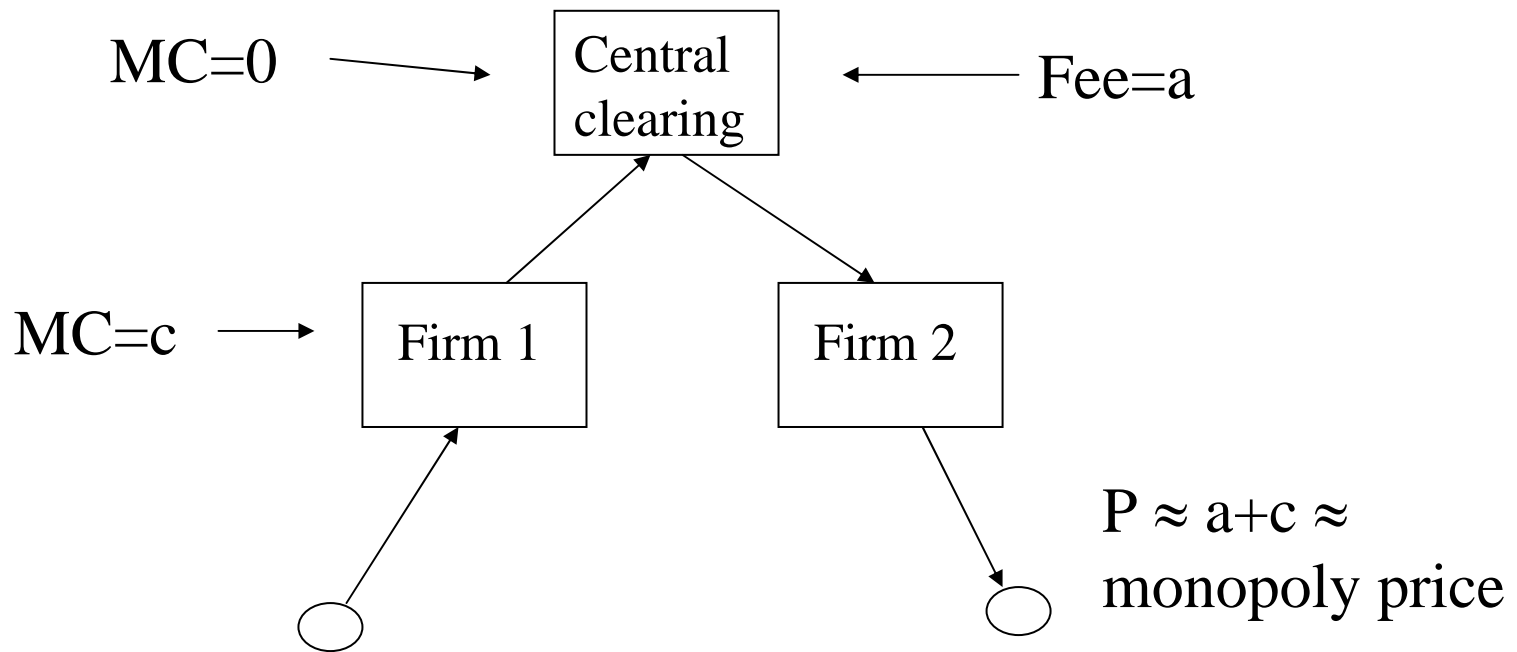
Infrastructural clubs - *cons*

- Exclusion of small rivals
- Co-ordination of downstream prices through vertical fees (the patent-pool effect)
- Co-ordination of downstream prices through multilateral horizontal interchange fees
- Other anti-competitive multilateral agreements (e.g., bundling and exclusionary clauses)
- Information flow and joint ownership facilitates co-ordination
- Fixed costs transformed into variable costs

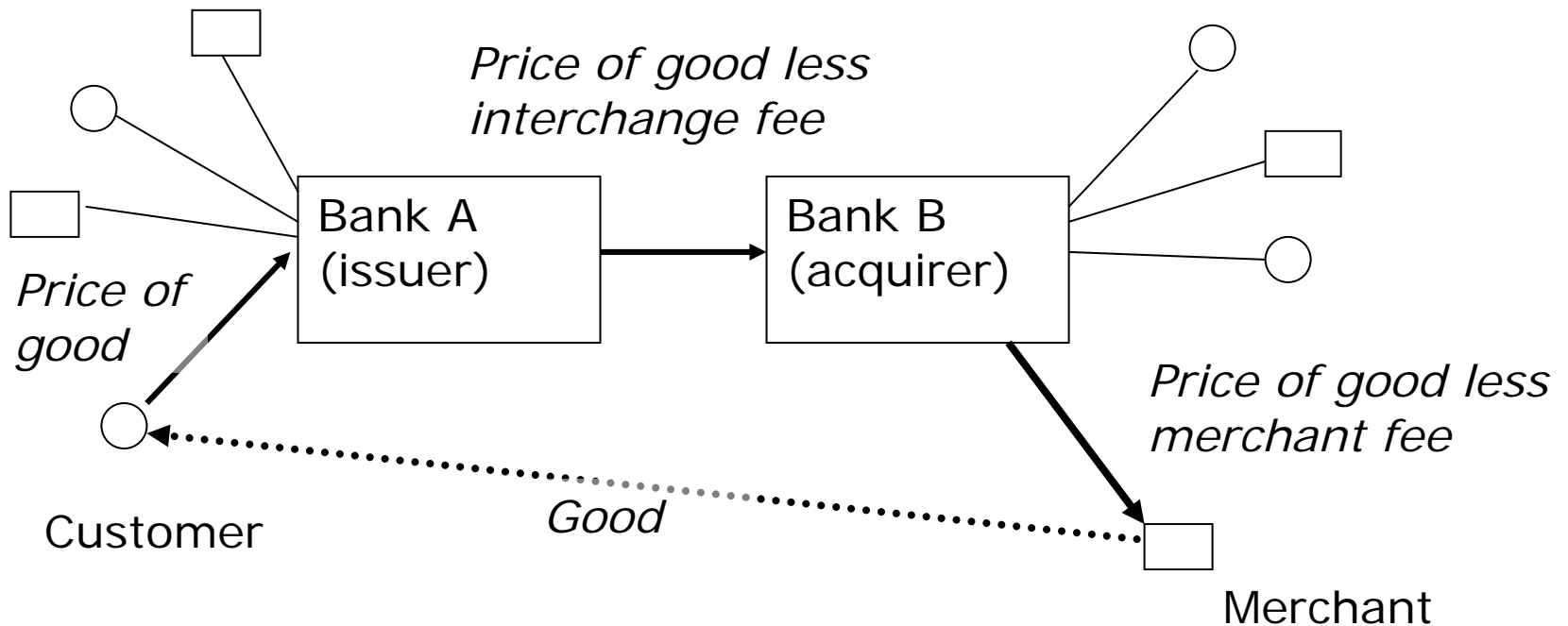
The patent-pool effect



The patent-pool effect in a payment-system context



Multilateral interchange fees



The effect of MIFs

- A higher MIF increases the acquirers marginal cost...
- ...which increases the merchant fee...
- ... but *reduces* the marginal cost of the issuer...
- ...which reduces the cardholder fee
- (Cf. interconnection fees in telecom)

The effect of MIFs, cont.

- A high MIF tend to raise issuers' profits, but gives issuers incentives to compete harder to attract cardholders
- $MIF=0$ could result in underprovision of payment cards
- Unregulated MIF can give overprovision

- Answer 3: General competition law (CL) is enough to ensure sound competition in payment systems
- Maybe, but CL is typically less strict than sector-specific legislation (SSL).

Competition law

- CL more general and flexible than SSL
 - No need to predict and regulate all contingencies
 - Example: Incumbent postal operator controlled postal codes
- SSL can impose stricter regimes
 - Example: CL lowered telecom interconnection charges somewhat, but SSL lowered them much more

CL and payment systems

- Sweden: focus on non-discriminatory access conditions for small banks
 - BGC (giro central), CEKAB (card transaction processing), Bankomat (ATMs)
- Internationally: focus on anti-competitive effects of multilateral agreements and exclusion of rival payment systems
 - EU: The level of Visa's MIF
 - US: The honour-all-cards clause (bundling) and the competitive programs policy (exclusion of small payment-card systems)

Tentative conclusions

- Oligopolistic infrastructural clubs need less regulation than single-firm bottleneck monopolies
- CL provides a basic level of pro-competitive regulation
- Sector-specific regulations for payment systems may or may not be warranted
- Need for further analysis!