Comments to: “Effects of regulating debit card interchange fee: evidence from Brazil”
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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.
  - None 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.