

Innovation and competition in Internet and mobile banking: an industrial organization perspective

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Retail Payment Innovations and Cash Usage: Accounting for Attrition Using Refreshment Samples

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Innovation and competition in Internet and mobile banking: an industrial organization perspective

Relevance of the paper

- analysis of the internet/mobile banking issues according to a (microfounded) industrial organisation approach
- understanding links between innovation and competition in Internet/mobile banking through an ad hoc survey of the literature / case study examples;
- addressing discussion for future research and policy makers.

Innovation and competition in Internet and mobile banking: an industrial organization perspective

Main points of the paper

- Barriers to entry
- Entrants' strategies
- Bank reactions
- Conclusion: innovation and fin. stability → need for a political economy strategy.

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Comments on the paper: 1 “Regulatory barriers”

- “Internet and mobile banking raise the issue of how to adapt the existing regulatory framework to non-banks”: i.e. ad hoc regulation to facilitate new entry and innovation
- However, a regulatory regime “can also constitute a significant barrier for entrant firms”
- Table 3 touch briefly on the payment services regime (i.e. PSD).

C1: First of all, to be updated the regulatory regime for payment services (i.e. “legislative package” in EU). In particular, something is going to change to consider the TPPs regime in Europe (see footnote 15). Some questions:

- **The regulatory regime: barrier to innovation or may contribute to create “level playing field” (see the TPP case in PSD2)? What about “self regulation” and technical requirements issued by ad hoc bodies in term of potential barriers?**
- **Regulation in payment services is a financial stability issue (only)? Standardisation, safety and efficiency, consumer protection etc.**

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Comments on the paper: 2 “Entrant strategies”

- Strategies from the standard industrial economics : i.e. Start-up, as a bank, vertical integration
- Other strategies to benefit from network economics: P2P platform / e-large retailers, TPP s(?)

C2: Maybe for “payments” some additional argument may be considered.

- What about “coopetition” between banks and Telco ?
- What about the strategy of shifting to unregulated sectors? (i.e. retailer platforms over the Internet)

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Comments on the paper: 3 “Bank reaction”

- Dominant position of banks: payment infrastructures, switching costs, bundling of services and so on
- Cooperation decisions
- Standards and other “quality” issues (i.e. Security): “too high quality standards fixed by the industry” to react to new entrants

C3: However, standardisation is needed in payment systems. Is the standard setting regime by public regulator welcome ? (i.e. regulatory technical requirements)

- See new regulatory regime for access account services via Internet.
- What about security standards as “quality” standard. See PSD2

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Comments on the paper: 4 “Conclusion”

- Payment industry and innovation: financial regulators consider this issue as a priority

Consider also that Commission declared to launch e-commerce sector inquiry in May 2015; Margrethe Vestager, European Commissioner in charge of competition policy, said, "European citizens face too many barriers to accessing goods and services online across borders. Some of these barriers are put in place by companies themselves"

C4: Some further reflection is needed: how to “catch” innovation in regulation? Primary regulation + technical standards? Regulating “activities” or “intermediaries”?

Retail Payment Innovations and Cash Usage: Accounting for Attrition Using Refreshment Samples

Retail Payment Innovations and Cash Usage: Accounting for Attrition Using Refreshment Samples

Relevance of the paper

- (micro) panel data empirical papers on the impact of retail payment innovation on cash usage;
- Take into account unobserved heterogeneity and non-random attrition in the panel;
- Results are not obvious: uneven pace of payment diffusion and, in some case, small impact on cash usage

Retail Payment Innovations and Cash Usage

Main points of the paper

- Payment innovation indicators: c-less credit; multipurpose prepaid; single-purpose prepaid
- Cash usage indicator: cash purchases on total transactions
- Only in some cases the estimated impact of payment innovation becomes significant on the cash ratio (i.e. single purposes prepaid)
- Caveat: nascent stage of some payment innovation; electronic payment cross-substitution; less information on the supply side

Retail Payment Innovations and Cash Usage

Comments on the paper:1 “Innovation”

- Payment innovation indicator / measuring innovation

C 1:

Why Internet as “demographic variable” (see page. 41) ? E-commerce and card based innovation : positive correlation

C 1b: Other effects:

Possible effect of specific economic/legal conditions of this period?

Note, from BRI statistics it is shown that “retailer cards” is decreasing strongly in Canada

Retail Payment Innovations and Cash Usage

Comments on the paper: 2 “Cash Usage”

- Cash ratio in Canada (see paper): around 20%

Low cash usage in Canada. Canada is a highly developed e-payment market. From BRI statistics: n. 286 payment per inhabitants in Canada (197 in EU)

Question: how regression analysis would change in term of impact on different level of cash ratio? i.e. run “quantile regression”.

- In some case innovation reduces cash by 2% (see paper):

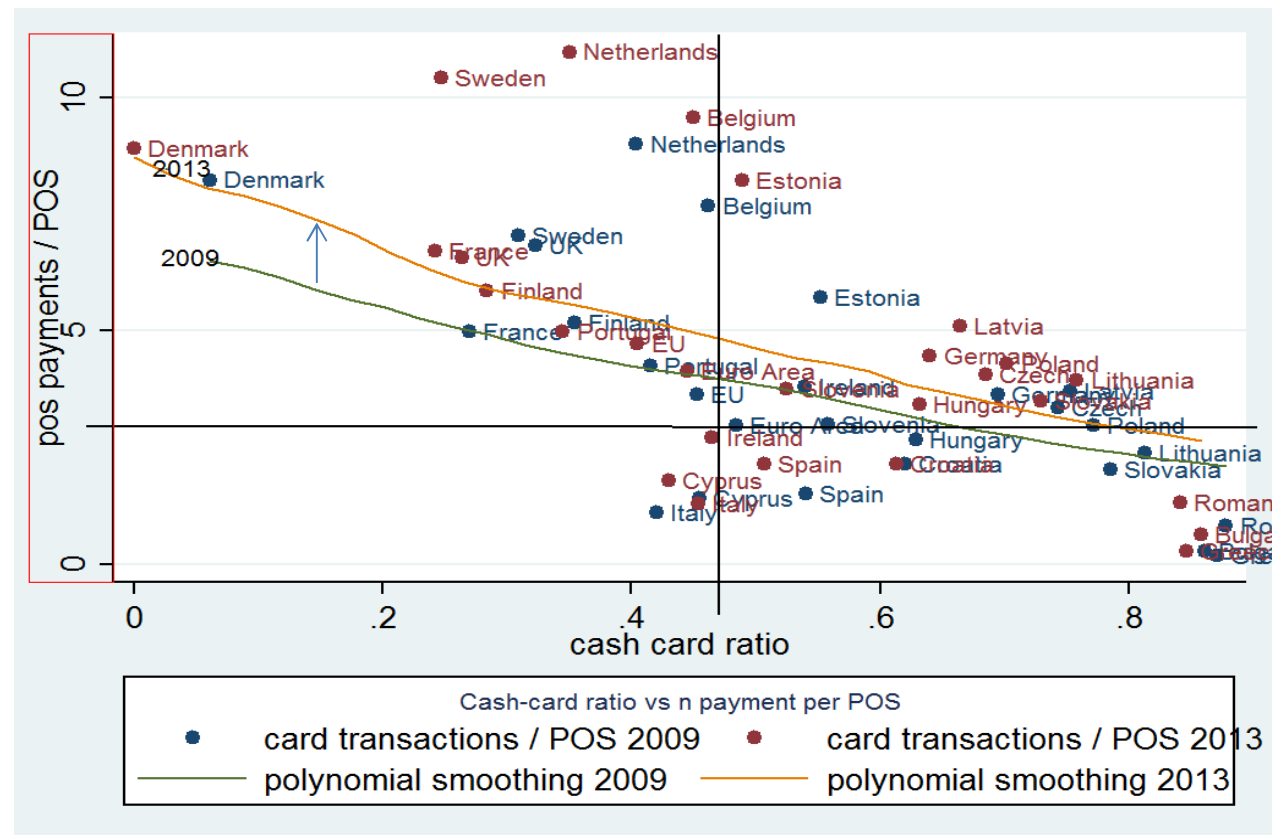
Question: in term of absolute value or relative value? In the latter, reduction is relevant.

Retail Payment Innovations and Cash Usage

Comments on the paper: 3 “unobserved effect”

Comments on the paper: 3

.. in EU there is an upward shift of the ‘cash card ratio’ curve in almost all countries even if the shift is not homogenous across countries. How to read it in term of impact of innovation: demand vs supply side effects; competition in Internet/mobile payments in last years; etc.



Note: Cash card ratio=withdrawals/total card turnover. Axes centered on the mean value. Source: ECB

Retail Payment Innovations and Cash Usage

For instance, give a rapid look to Italy
where cash is dominant

Cash transactions vs e-payment channel (Source: Bank of Italy, Italian Household Survey; panel data)	2006	2014
% cash purchases by Italian households	47.7	39.5
% Italian Households		
Bancomat	63.4	72.4
Prepaid	1.9	20.9
Credit card	31.5	28.7
Remote Banking	8.5	19.2

Thank you for your attention!

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