

Payments, Participants and Network Supply

Presentation to the ISCR

15 June 2011

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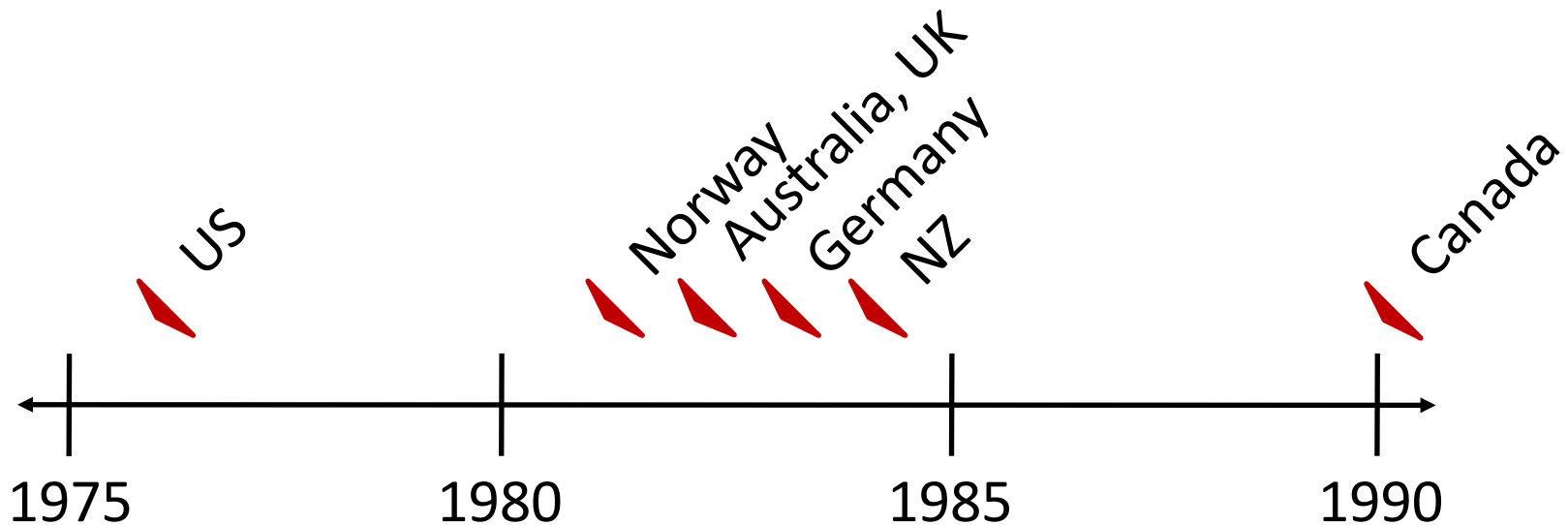
Differences in way we pay

- Since 1949, new instruments available
 - Credit cards, debit cards and stored-value cards
 - Internet banking and Paypal
- How do payment networks develop?

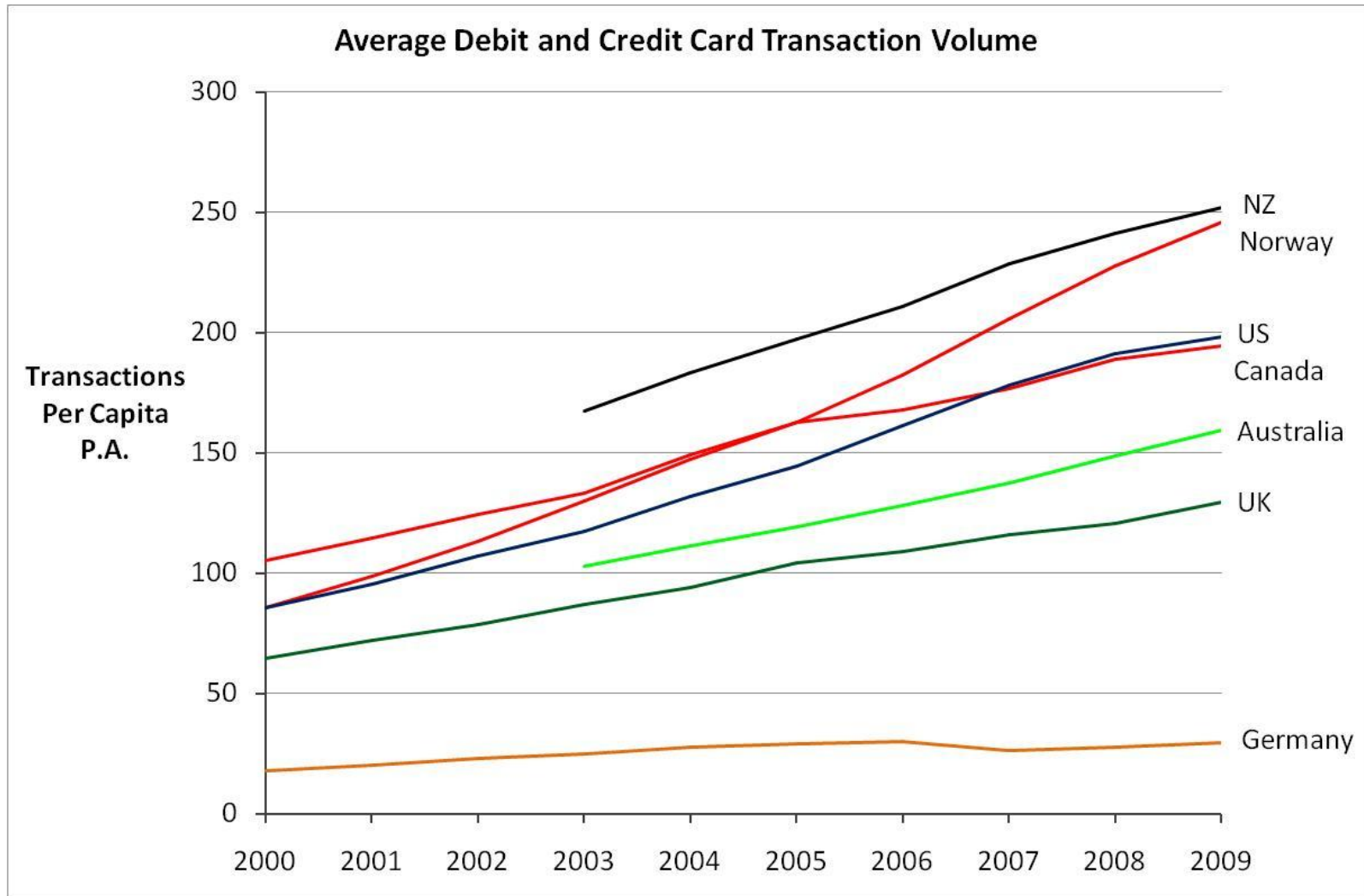


Urban myth busting

- NZ not first to have debit card POS network



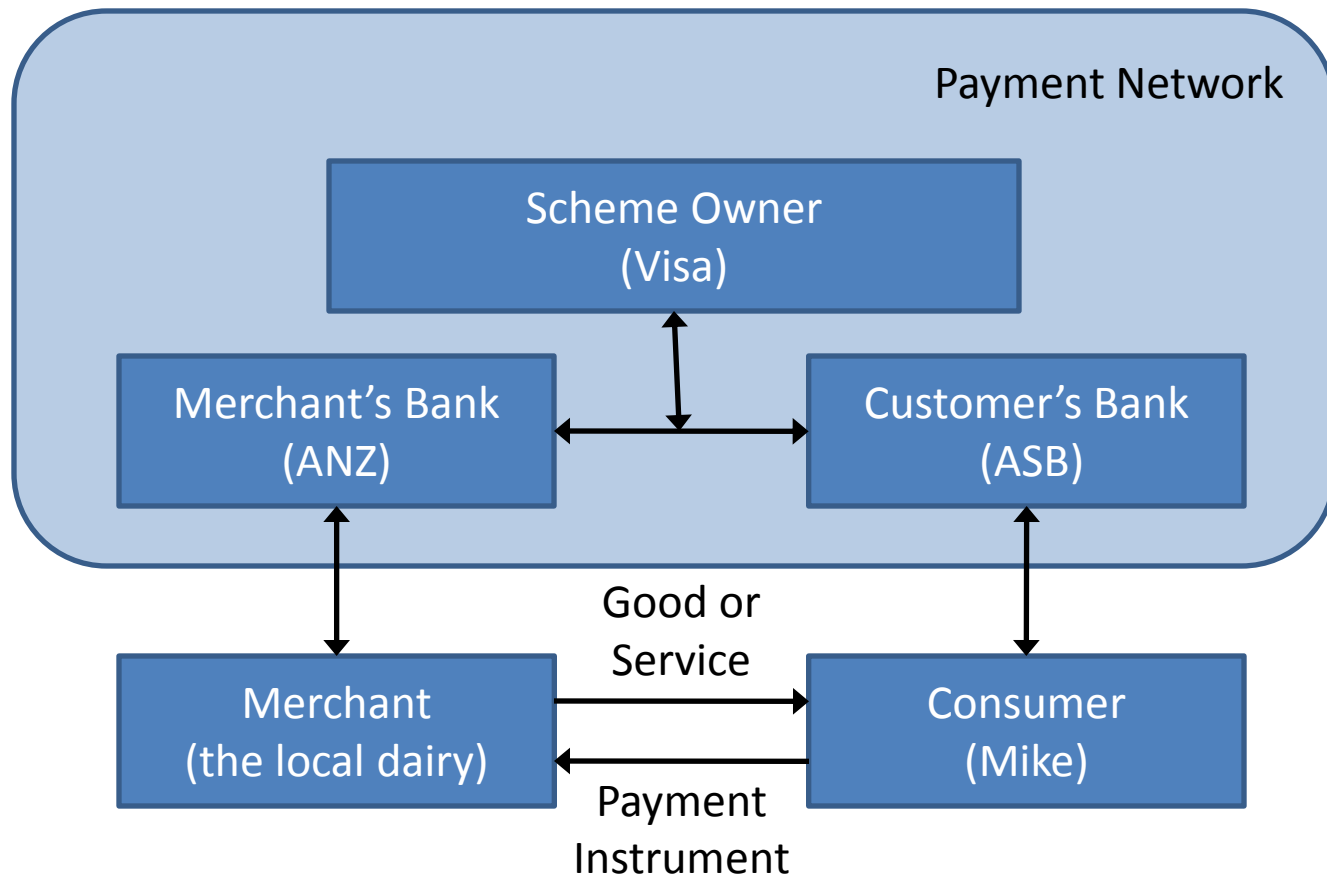
Evidence of differences



Presentation structure

- The basics
- Demand
- Supply
 - Networks in my sample countries
- Conclusions

The basics



Instrument demand

- Consumers offer, merchants accept
 - Reduces costs, makes transaction easier
- Decision complex, differs for each side
 - Differentiated products



Attributes: EFTPOS debit v cash

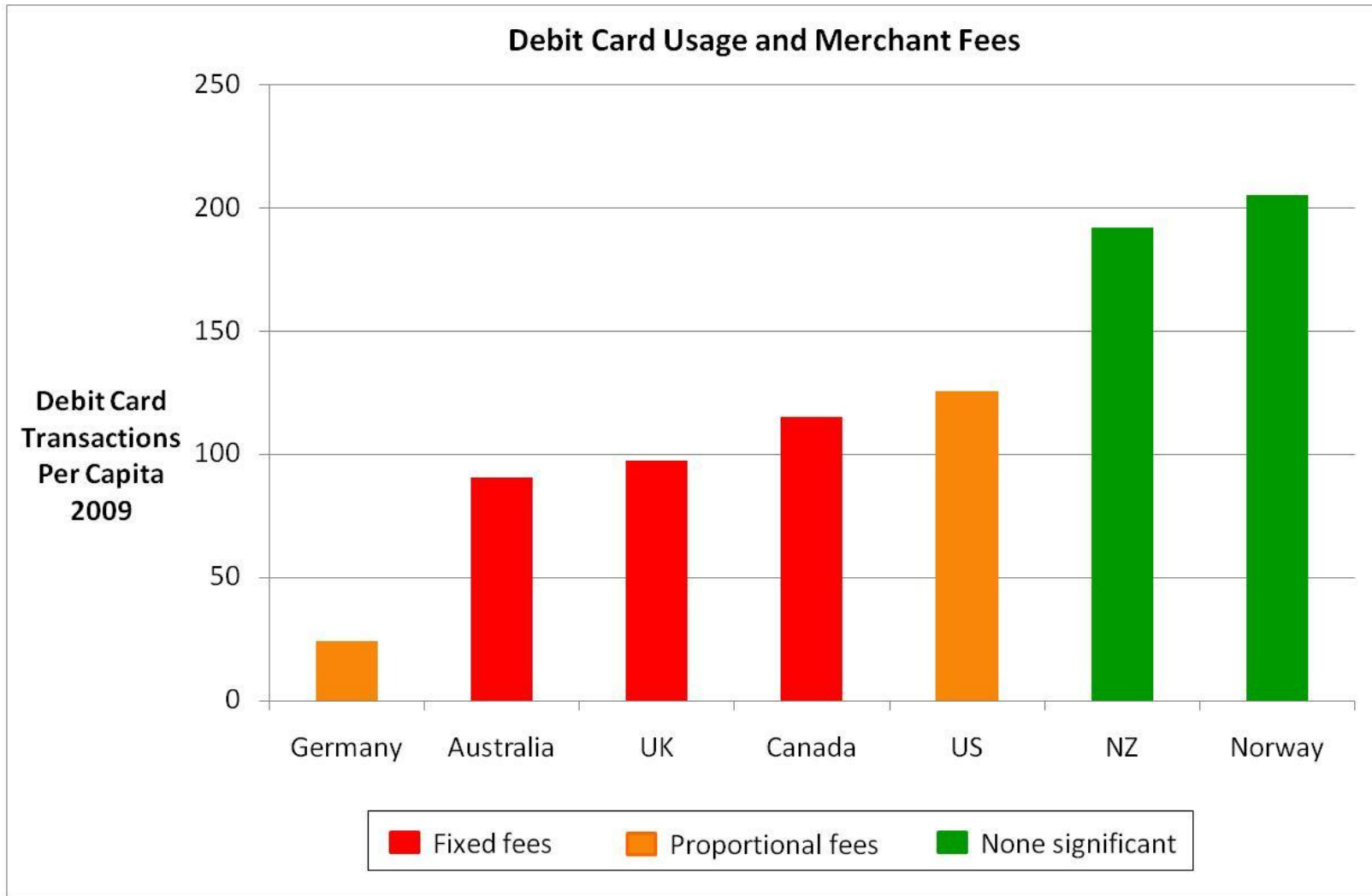
Attribute	Merchant	Consumer
Speed	↓	↓
Security	↑	↑
Convenience	–	↑
Transaction fees	–	↑
Fixed cost	↑	–

Consumers and network effects

- People shop together, form habits together
- A dynamic learning process
- If already hold instrument, easy to try using
 - Cards for ATMs, public transport are helpful



But merchants matter, too!



Instrument supply

- Payment network offering an instrument will:
 - Receive fees from users, incur costs
 - Want instrument to be useful
- Offers instrument when fees > costs
- Network effects mean participation important



Competition for participants

- Competition means networks make instrument attractive
 - Provide useful instruments cheaply



New Zealand

- Pre-87, significant restrictions
 - Groups dislike each other
- Post-87, anyone can be Registered Bank
 - EFTPOS: Handy-point and Cashline
 - Inter-bank transfers: Databank, PCL and ISL
- Few other restrictions

Norway and Germany

- Significant controls on banks
 - Norwegian Gov't encourages pricing structure
 - Ass'ns of German banks choose structure
- Restrictions on issuers of stored-value

Australia and the UK

- Governments interfere with network rights
- Also make instruments less useful
 - Network operations more difficult
 - Lesson relevant to NZ
- Restrictions on issuers of stored-value

Canada and the US

- Restrictions make competition difficult
 - Specify members of Canadian networks
 - Previous limits on size of US banks
- US anti-trust law worsens outcomes
- Cheques and the Federal Reserve
 - Lesson relevant to NZ

Conclusions

- Restrictions often harm users
 - Bad for innovation
- NZ a stand-out because has few restrictions
- Relevant to networks for cellphone payments
 - NZ should simplify telco regulation