

Comments on
« Discriminatory fees and coordination in
shared ATM networks »
(Stijn FERRARI)

prepared for the conference on

Payment Systems

Central Bank of Norway

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Why banks deploy ATMs ?

- To generate interchange inflows (Donze-Dubec 2006)
- To limit interchange outflows (idem)
- If networks are differentiated by usage fees :
 - To attract depositors (Massoud-Bernhardt 2002)
 - To generate surcharge inflows (idem)
- To save on human-tellers costs (Ferrari 2008)

Main Findings of the literature - 1

- Overdeployment of ATMs. Why ?
 - Donze Dubec (2006) : collusive role of the IF.
 - Massoud Berhnard (2002) : deposit stealing effect

Main Findings of the literature - 2

- Comparing (IF + FF) & (IF + FF + Surcharges)
 - Surcharging benefits consumers when travel costs are high (Donze-Dubec 2008, Knittel Stango 2008)
 - Surcharging is not very good for banks (too many ATMs) (Massoud-Bernhardt 2002, DD 2008)
- In the USA, banks lose money on their ATMs !

Model

- Estimation of parameters affecting the demand for withdrawals
- Estimation of costs
- Use parameters to study effects of introducing ATM usage fees on
 - Deployment
 - Welfare
- Results are very important for policy advices

Result 1

Optimal # of ATMs is much higher than under coordination or competition → underdeployment.

- A surprise ? Perhaps no
- Your explanation : no depositor stealing effect
- Another explanation: in Belgium, IF (€0.4) is close to the average cost of an ATM withdrawal
 - $2300 / 7500 \sim \text{€}0.31$ IF too low ?
- It would be interesting to calculate the welfare-maximizing IF (under competition, without ATM fees) and compare to the FB

Result 2

Coordination is better than competition
for welfare

- More ATMs are deployed
- Why ? Under coordination, banks fully internalize cost savings
- Under coordination, relevance of cases with ATM fees ? With a 2-part tariff banks could extract much CS !

Result 3

- Under competition (compared with the no-fee regime)
 - FF regime is bad for welfare (less ATMs)
 - FF + Surcharge regime is not very good for welfare
 - Surcharge regime is not so bad when price sensitivity is low (more ATMs)

Result 3 (continued)

- But,
 - Impact of « depositor stealing effect » ?
 - Impact of ATM fees on the account fee ?
- For example Donze-Dubec (2008),
 - $n_{ff}(a) > n(a)$
 - $w_{ff}(a) > w(a)$
- Are these theoretical effects important empirically ?

Conclusion

- Perhaps a good model of ATM pricing involves an IF (slightly above cost) + some surcharging.
- A proposition (close to the UK model)
 - Free entry on the ATM market (notably IADs).
 - ATM deployers can choose
 - To receive the IF or
 - To surcharge (but not both !!!) [no FF]
 - IF above AC (not the case in the UK: IF = AC)

Conclusion - 2

- Surcharging induces ATM deployment
- Choice between surcharges and IF limits
« depositor stealing effect ».
- Nice paper !!!