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*Comments on  
Payment Card Rewards Programs and  
Consumer Payment Choice  
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Research Conference on Payment Systems

Norges Bank, Oslo

14 November 2008

# *Paper in nutshell (1)*

- ◆ Main goal: estimation of direct effects of rewards card programs on consumer payment choice for in-store transactions
- ◆ Data set: detailed information on consumer perceived attributes of payment methods and consumer perceived acceptance of payment methods by merchants
- ◆ Estimation approach: follows Harris & Keane (JoE, 1999) to alleviate the endogeneity problem of rewards [instead of IV-method]

# *Paper in nutshell (2)*

- ◆ Public policy issue: examination of the effects of removing rewards by counterfactual experiments
- ◆ Main results:
  - \* removing rewards from credit and/or debit cards
    - => only a small percentage of consumers would switch from electronic to paper-based payment methods
  - \* removing rewards from both debit and credit cards
    - => reduction in credit card transactions & increase in debit card transactions

# Comments (1)

- ◆ Very topical paper: *authorities scrutinizing “card payment arrangements” when seeking for a level playing field between different payment instruments and promoting efficiency.*
- ◆ Good analytics: *clear-cut model tested with a nice data set with attitudinal data to control for unobserved consumer heterogeneity.*
- ◆ Interesting and clear results: *the paper provides a very comprehensive analysis of rewards cards programs in the U.S.*

# *Comments (2)*

- ◆ Policy-relevant analysis: *food for thought to current regulatory discussions*
  - ◆ Policy experiments reveal reassuring results for “supporters of interchange fee regulation”
  - ◆ However, most rewards and highest merchant fees commonly associated with 3-party schemes, not 4-party schemes
- ⇒ Challenge for potential policy conclusions:  
*Should regulatory measures focus more on merchant fees (or reward programs) than on interchange fees?*

# *Further questions (1)*

- ◆ Consumers' choice of payment method is a many-faceted and cumbersome issue  
=> it is likely to depend on numerous different "behavioral ingredients" not directly observable
- ◆ *Hence identification of "true demand" is difficult*
- ◆ *How to acknowledge rationing effects (cards are not given to all)?*

## *Further questions (2)*

- ◆ *How easily can the policy results (based on the U.S. data) be translated to other countries where overall tariff system are different?*
- ◆ *Results obtained using 2005 data, how robust they are today?*
- ◆ *Need for panel data and change in bonus policy for more robust results?*

## *Further questions (3)*

- ◆ A practical detail: *How would the (forced) removal of rewards be carried out in practice?*
- ◆ Another point: potential problem with question of “the most frequently used payment method”  
=> e.g. a person having two payment instruments with usage volumes 51% vs. 49%?
- ◆ Concluding question: *Can changes in card rewards bonus systems be analyzed in isolation of other effects? [effects on merchants fees => effects on merchant acceptance of cards etc.]*

# *Potential extensions*

- ◆ Effects of removing cards rewards programs on social welfare  
=> more information on the social costs of different payment instruments would be needed
- ◆ Robustness of results over time (“dynamics”)  
=> panel data “with bonus policy changes” would be nice
- ◆ Cross-country comparisons  
=> do “national payment characteristics/habits” play a role?