

**Incentives at the counter:
an empirical analysis of surcharging
card payments and payment behaviour
in the Netherlands**

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Agenda

1. Scope of paper
2. Data
3. Conceptual framework
4. Summary findings
5. Some remarks

1. Scope of paper

- **Research issues:**
 - Effects of (no)-surcharging
 - Under – or overprovision of card services
 - Social costs at POS
 - Debit card
- **Innovation of the paper:**
 - Contributes to literature:
 - Payment behavior and pricing of payments in general
 - Surcharging of card payments in particular
 - Only limited evidence, due to lack of data
 - Unique survey data from consumer and retailer
 - Netherlands

2. Data

- **Consumer survey:**
 - DNB Household Internet Survey
 - Years [1993???] – 2006 – Changes over time???
 - More than 2000 panel members
 - Small bias, e.g. electronic payment instruments, education
- **Retailer survey:**
 - TNS Nipo/DNB questionnaire
 - Year: 2006
 - About 1000 retailers
- **Experiences with surcharging and payment pricing**
 - 1/5 retailers surcharges debit card payments for certain amounts
 - 1/2 food, media, and gas/travel agencies
 - Smaller companies surcharge most

3. Conceptual framework

- Impact of surcharge on demand for debit card services:
 - Probit I: surcharging yes/no (obs. 837 / 812?)
 - Probit II: fee level of surcharge (obs. 174 / 169?)
 - Probit III: threshold level of surcharge (obs. 174 / 169?)
 - Model I most preferred: surcharging influences payment choice
 - Model II: fee level does not matter as much
 - Model III: Cut off point not relevant

3. Conceptual framework

- Other firm and environmental variables
 - Sometimes mixed results: coefficients, signs, significance, e.g. sales variables Model 1-III
 - “Noord Holland”? vs “City” dummy
 - Variables: cut1-9?
 - Multicollinearity, e.g: firm size variables versus # employees

4. Summary findings

- Surcharging frequent practice in NL
- Discourages use debit card payments, but favors cash
- Higher fees associated with lower debit card usage
- No significant threshold effect
- Abolishment leads to higher debit card payments by 8%-points
- Other control variables matter, e.g. firm size, amount, etc.
- Price sensitivity: age, education, income

5. Some remarks

- **Conclusion and policy considerations**
 - Support for abolishment of surcharge for debit card usage
 - Social cost savings in long run
 - Evidence for the Netherlands → how about other countries?
- **Reform of Australian payments system**
 - Conclusion of the 2007/08 review
 - No re-imposition of no-surcharge rule
 - Level of surcharging is rising
 - Evidence ability to surcharge downward pressure on interchange fees and merchant service fees
- **Further reflections**
 - Surcharge positive effect on acceptance
 - Lack of awareness of true cost of cash



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