

Discussion on

"Private cards and the bypass of
payment systems by merchants"

by Marc Bourreay and Marianne Verdier

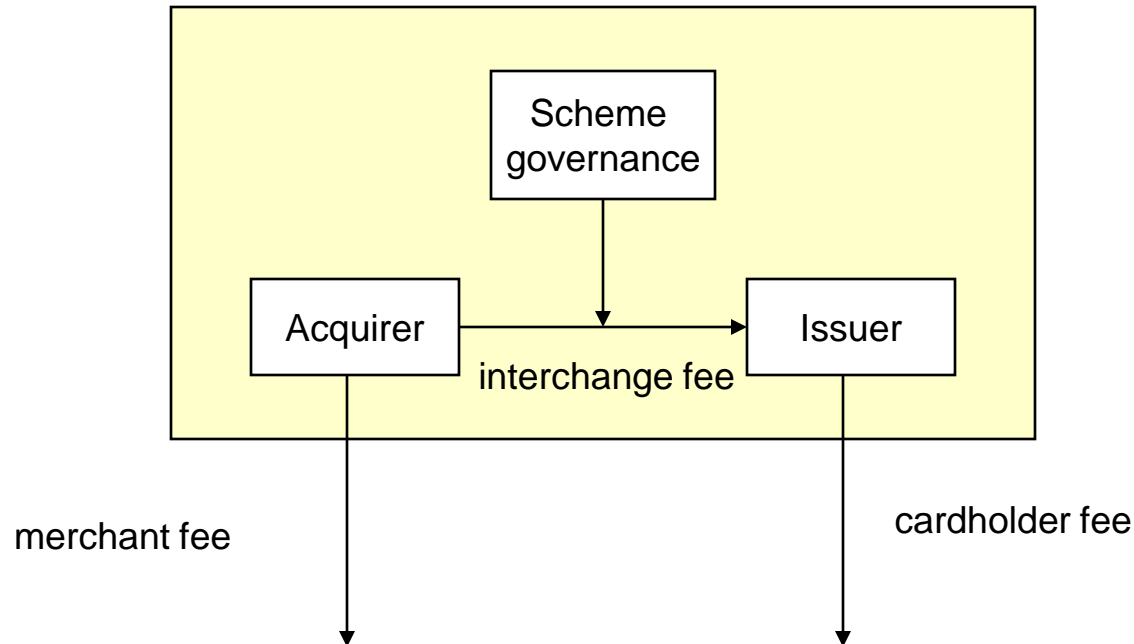
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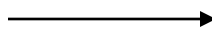
The paper

- The paper is about competition in card payments
- Very rich model: two strategic cards, two strategic homogenous merchants, issuers, acquirers, interchange fees, multihoming by both merchants and consumers, heterogenous consumers, fixed and variable costs for private cards, only variable fee for cardholders, market entry, ...
- Very interesting, sometimes counterintuitive results
- First paper to look at the issuance of private cards
 - A payment platform sets prices to maximize joint profits of issuers and acquirers
 - Merchant with private card sets prices to maximize profits from payment and goods business

Payment platform

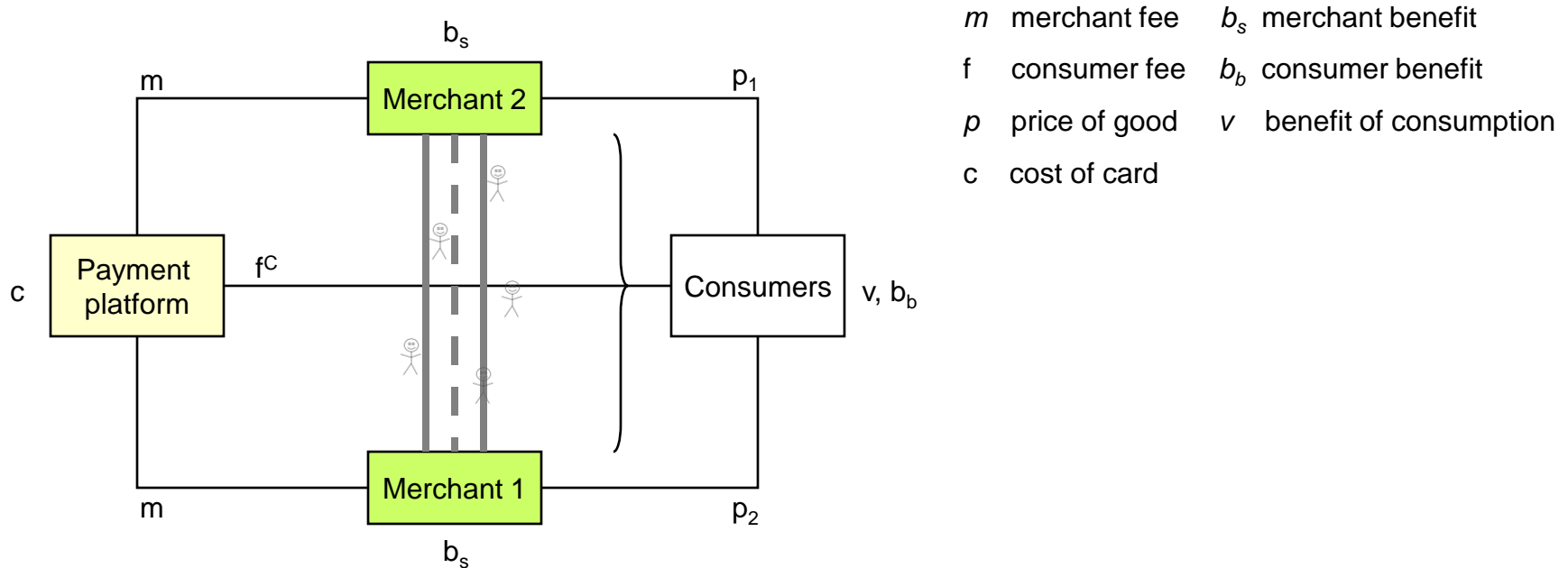


The model has monopolistic issuer and monopolistic acquirer and the objective is to maximize joint profits with the availability of an interchange fee



Sets same prices as a 3-party scheme. Can be considered as one entity. The interchange story can be an add on.

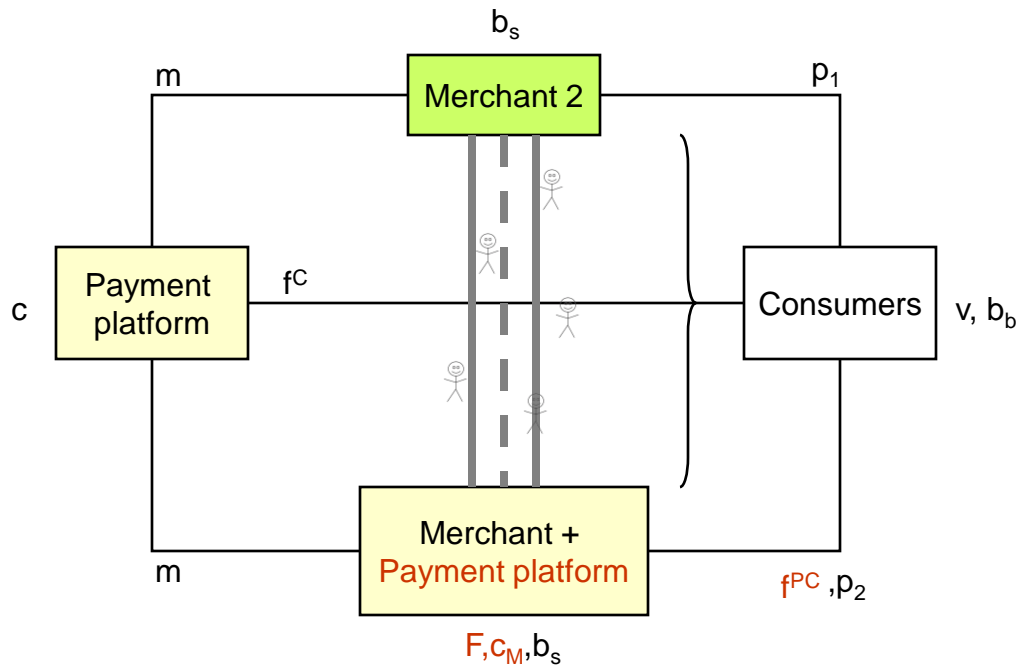
Card monopoly



Outcome:

Merchants are willing to pay a higher merchant fee in order to attract consumers to their stores (compared to case of non-strategic merchants) (proposition 2)

Competition from private card



- m merchant fee b_s merchant benefit
- f consumer fee b_b consumer benefit
- p price of good v benefit of consumption
- c cost of card c_M cost of private card
- F fixed cost of private card

Private card sets $fee=0$, payment platform a positive cardholder fee to attract customers to pay with private card (proposition 3).

Payment platform increases merchant fee i.e prices get more skewed (proposition 4). Total price level can increase as the other merchant is willing to pay higher prices to compete in the goods market.

For discussion

- Bolt-Soramaki (2008)
 - looks at Bertrand competition between two identical platforms
 - result is very skewed prices, cardholder price negative (rebates, bonus points, ...)
- Effect on demand for card payments, price level, welfare?
- Store credit vs. 3rd party credit?
 - currently the reason for private label cards?
 - consumers are maxed out on their cards or cards have lowered limits/requested balances to be paid
 - stores could provide the credit