Some Comments to "Interchange fees and incentives to invest in the quality of a payment card system" by Marianne Verdier

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Summary (1)

Aim

- study the incentives to invest in the quality of a open credit card system
- designs a two-sided market model where each side of the market (acquirer, issuer) can invest into quality of the payment system; overall quality depends on investment of both sides
- comparison of pricing structures (interchange fee) with and without quality investment

Summary (2)

Results

- without quality investment interchange fee equal to acquirer's margin
- with quality investment interchange fee can be lower to provide acquirer with incentives to invest in quality

Who invests in quality? (1)

- in the model, acquirer and issuer are treated as two separate players; each of them invests into quality of the system
- but in practice banks typically take on both roles; in some transactions a bank is acquirer, in some issuer, or in some even both
- strict separation of the roles seems to me too artificial to study investments in the quality of the system

$\Rightarrow$ model where banks are active in both sides of the market, (but possibly have different strengths on the two sides)

Who invests in quality? (2)

- some investments may not be made by banks separately, but by the payment platform, e.g. security of the system
- that is cooperative decision of investment into the quality
- does a cooperative decision lead to less investment than under a non-cooperative decision?

Level of quality investment

- your focus is on whether card use is efficient
- but what about the quality level of the payment system?
- is there are under- or overinvestment in quality?

Time structure

in the paper, the following time structure is assumed:

1. interchange fee
2. quality

but the following one seems also reasonable:

1. quality
2. interchange fee

$\Rightarrow$ Does this make a difference?