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Mexican competition authorities on Bank Interchange Fees (BIF)

Discussion Topic

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This note is personal. It does not necessarily reflect VA&BA position

1. In this Note it is pointed out that a recent policy proposal by the Federal Competition Commission (FCC) on BIF lacks supporting arguments.
2. This March 2009 the FCC's head presented a document on competition on bank credit for consumers. Several policy proposals were made, in this Note I focus only on the following diagnostic/proposal:

Diagnostic:

“Interchange rates related to payment cards (debit and credit) may be a tool for blocking competition and increase banks' margins.”

Proposal:

“To make sure these rates are set with the unique objective of promoting an efficient market development.” At page 8 of

http://www.cfc.gob.mx/images/stories/comunicacion/Presentaciones/2009/Propuestas_competencia_bancos.pdf

3. The word “**may**” in the diagnostic signals the uncertainty surrounding the FCC's assessment. In spite of that the competition authority recommends to set rates looking after market efficiency, without showing that nowadays they are inefficient and without any analysis as to the cause-effect relationships among: banks, cardholders, and retailers. This relationship implies that any modification in BIF may have effects on the level and on the structure of commissions to cardholders and to retailers, which in turn may impact subscription and usage of payment cards (regarding cardholders) and the acceptance of retailers of such payments cards. In such a process, the setting of BIF as is actually carried out may reflect an efficient outcome of bank competition. See for instance the January 2009 paper Two-Sided Markets, Bank Card Payment Networks, and Public Policy by David D. VanHoose at

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1326487

For an illustrative article dealing with regulation and competition is by Jean-Charles Rochet and Jean Tirole (2008) '*Competition Policy in Two-sided Markets, with a Special Emphasis on Payment Cards*'. Handbook of Antitrust Economics, Chapter 15, The MIT Press, edited by Paolo Buccirossi.

4. In April 2007 the FCC published a study on competition conditions in the banking sector at the retail level. Therein the authority strongly opposes regulation of bank rates and commissions as long as there is effective competition (a concept not clearly determined). On the contrary she considers valid to deal with BIF in a similar way as exposed in the March 2009 proposal, such proposal if applied would most likely end up in heavy-handed regulation. In any case the FCC in April 2007 considered that a more complete analysis of BIF would be presented sometime in the future. To this date no such study has been published. See paragraphs 62-72, 79, f, 80; VIII, Fourth, 2 of

http://www.cfc.gob.mx/index.php?option=com_content&task=blogcategory&id=70&Itemid=434&limit=5&limitstart=35
