

Discussion of
**Explaining adoption and use of payments
instruments by US consumers**
by Koulayev, Rysman, Schuh and Stavins

Beth Kiser
Federal Reserve Board
September 23, 2011

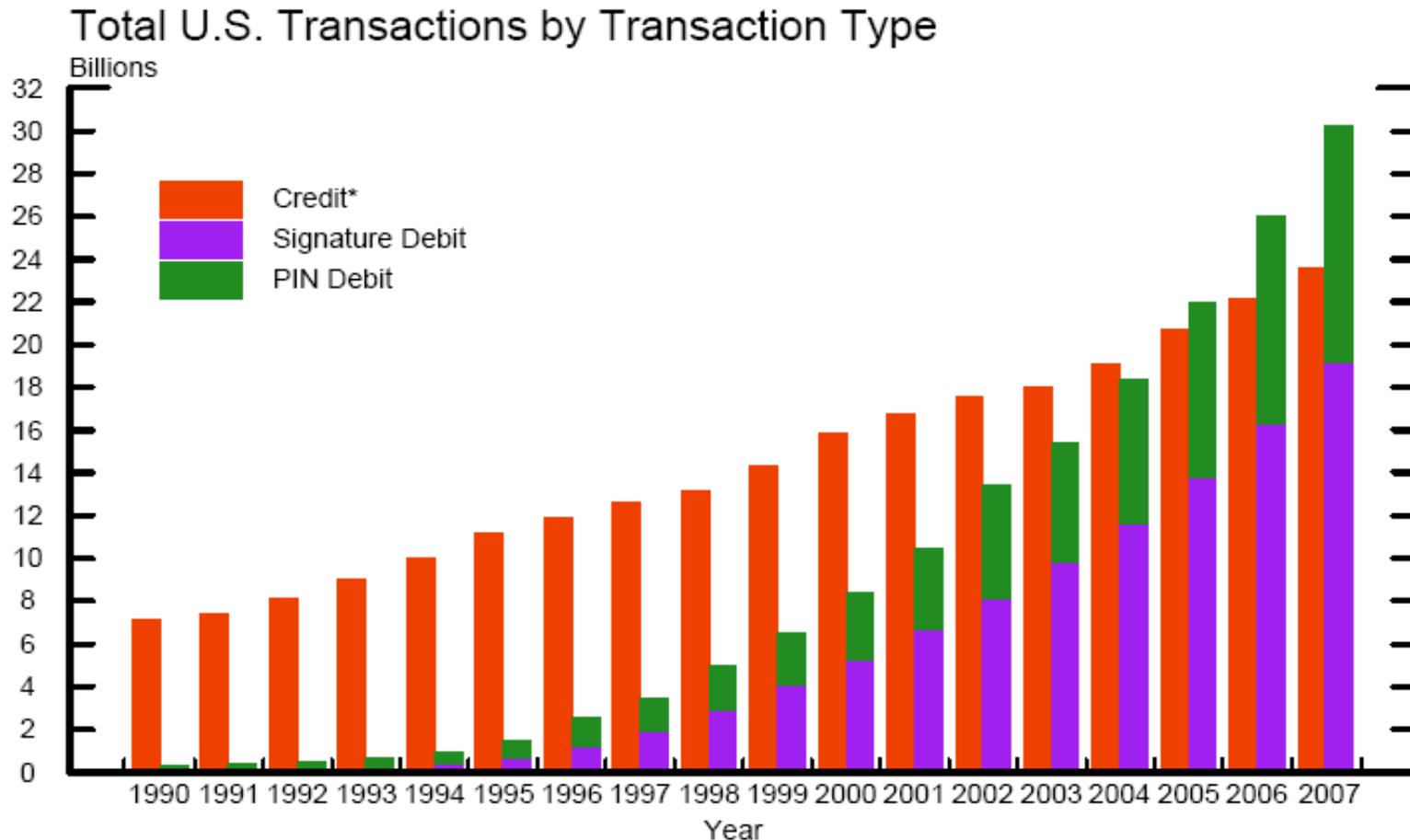
Disclaimer: These are my views and not those of the Federal Reserve Board
or the Federal Reserve System.

General Comments



- Ambitious paper
 - Model payment method adoption and use decisions
 - Previous literature takes one or other as exogenous
- Great survey data
 - FRB-Boston Survey of Consumer Payment Choice 2008
- Important policy application
 - Effect of changes in debit card pricing resulting from Fed's Regulation II – implementation of “Durbin Amendment”
 - Debit card interchange, network exclusivity, merchant routing

How will Reg II affect use?



* Credit includes proprietary store cards.

Source: ATM and Debit News EFT Data Book, Nilson Report, industry sources, various years, and staff estimates

Model and Applications



- Nice application of modern discrete-choice models
 - Discrete/continuous and bundled-choice literature
 - Distinguish adoption and usage costs/benefits
- Structural approach allows computation of counterfactuals
 - Response to
 - Higher “usage” and “adoption” costs of debit
 - Higher costs for all bank-related instruments

Choice Set

- Any payment instrument available...
 - Cash
 - Check
 - Debit
 - Credit
 - Prepaid
 - On-line bill pay
 - Automated debit
 - Direct deposit
- ...Given the payment context:
 - Essential retail
 - Non-essential retail
 - Online retail
 - Automatic bills
 - Online bills
 - Bills by check or in person
 - Other non-retail

Choice set, cont'd



- Is it realistic to expect all these choices to meet the model assumptions?
 - “Adopting one payment method does not raise or lower the costs of adopting another payment method.”
 - True for automated bill-pay, automated debit, direct deposit?
- Non-POS payment methods are very different
 - Relationship with third parties (billers, employers)
 - Usage decision is infrequent, and “pre-decided” at most payment opportunities
- So...

Focus on Point of Sale?



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Heterogeneous Effects



- Authors note that they expect heterogeneity in effects on adoption and usage by income
- Push more on demographics
 - e.g. Borzekowski and Kiser (*IJIO* 2008)
 - Compute implied market shares by demographic group
- Focus on adoption margin (“unbanked”) vs. usage margin

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Stay tuned for SCPC 2010!