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Convergence of european retail payments

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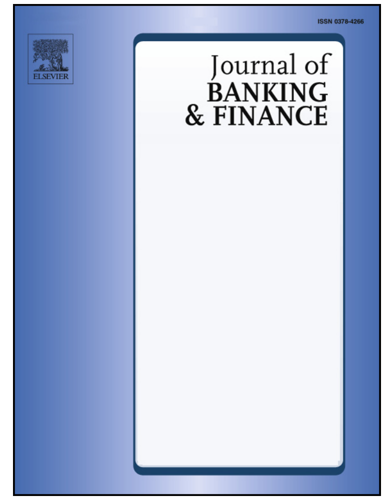

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Abstract

We estimate convergence in the European retail payments market during the period 1995-2011 for the most popular retail payment instruments: cash, debit card, credit card, direct debit, credit transfer, cheque and e-money. To estimate convergence, we employ the concepts of beta and sigma convergence. There is some evidence of convergence for all payment instruments, except for cheques and e-money. The results suggest that the cross-country dispersion of the use of payment instruments has declined over time in Europe, and the pace of convergence has picked up since the introduction of the single currency. We also find evidence for beta convergence for card payments, direct debits and credit transfers. The results indicate that convergence in European retail payments has progressed despite the financial crisis.

Keywords: Retail payments, Convergence, Financial integration, SEPA
JEL Codes: F20, G20

1. Introduction

The efficiency and performance of the retail payments system is an economically significant question. For example, Schmiedel et al. (2012) estimate that the social costs of retail payments amount to approximately 1% of the Gross Domestic Product (GDP) of the European Union (EU). The convergence of payment behaviours can contribute to the diffusion of new payment technologies and thus economic performance; there is evidence that the electronification of the retail payments system promotes the performance of the banking sector and economic growth (Hasan et al., 2012a,b). The convergence of cross-country payment habits should facilitate the cross-border movement of people, goods and capital, as retailers and customers of different countries increasingly encounter familiar payment methods. To the extent the cross-country convergence affects the integration of the retail payment market, it also enhances the possibilities to reap network benefits and