



BANCO CENTRAL DO BRASIL

Interoperability in Retail Payments Systems

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Agenda

- The Banco Central do Brasil – Bc's Policy and Role
- The Brazilian Retail Payments System – Main Features
- The Main Reaction of the Market
- Next Steps

BCB – Policy in Retail Payment System

- **Focus of the BCB**

- Promote economic efficiency in currency's usage

- **Objectives**

- Increase relative share of electronic instruments vis-à-vis paper-based instruments
- Economic efficiency and higher social welfare

Retail Payments – Scenarios and Trends

BCB Opinion

Supply

Technological advance
Transactions increase
Opportunities for economies of scale and scope

Demand

More options
More quality
STP to business
Lower costs

Processing of increasing volumes, handling distinct products and offering new services in an efficient, safe and reliable way

Interoperability in network infrastructures
Competition in services

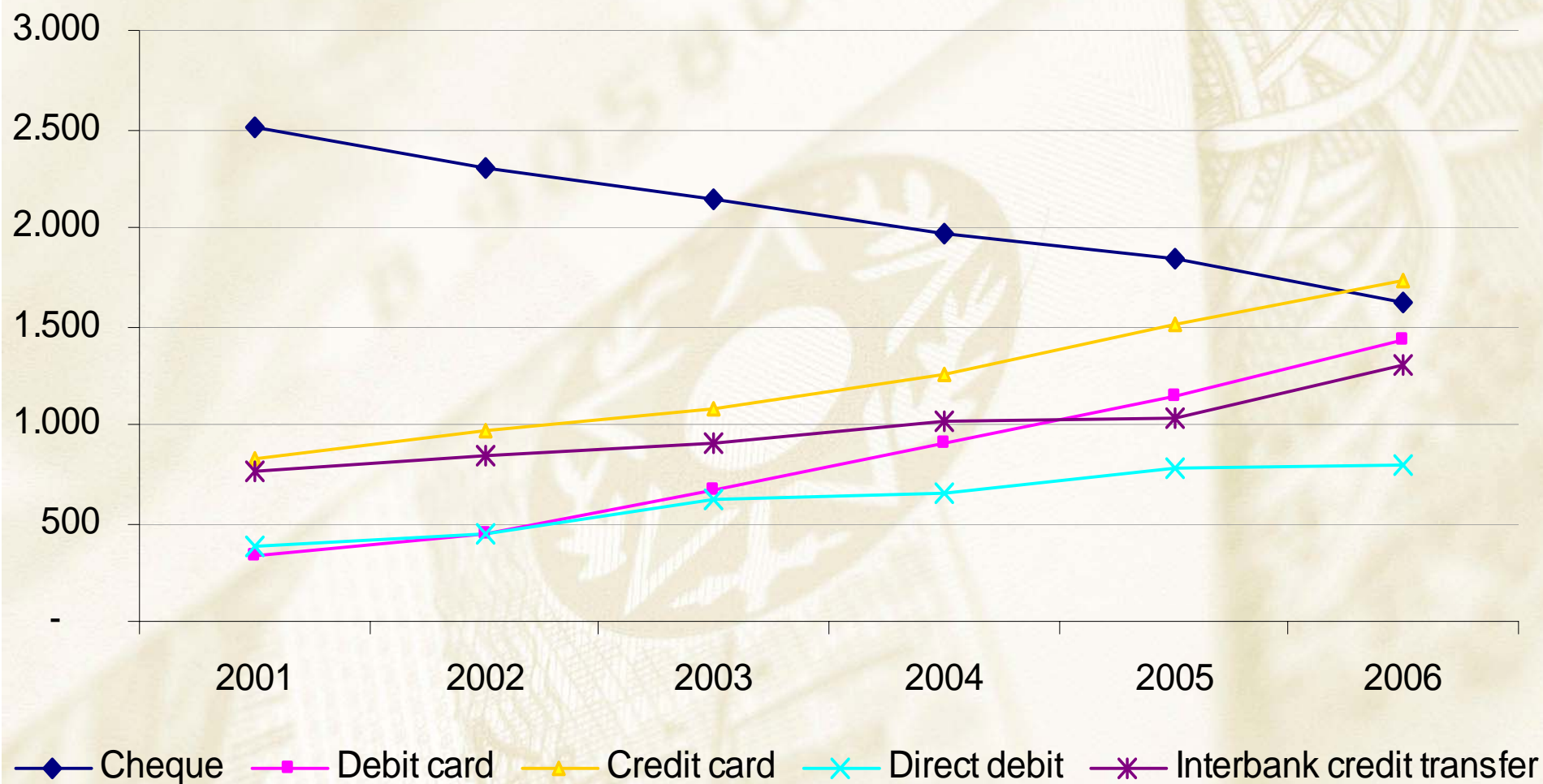
BCB – Role in Retail Payment System

- To indicate policies, directives and objectives
- To foster private and cooperative solutions
- To coordinate investment decisions and expectations
- To act as a catalyst for the relationship between relevant parties and public authorities interested in the subject
- Regulation, when needed

Report on the Brazilian Retail Payment System

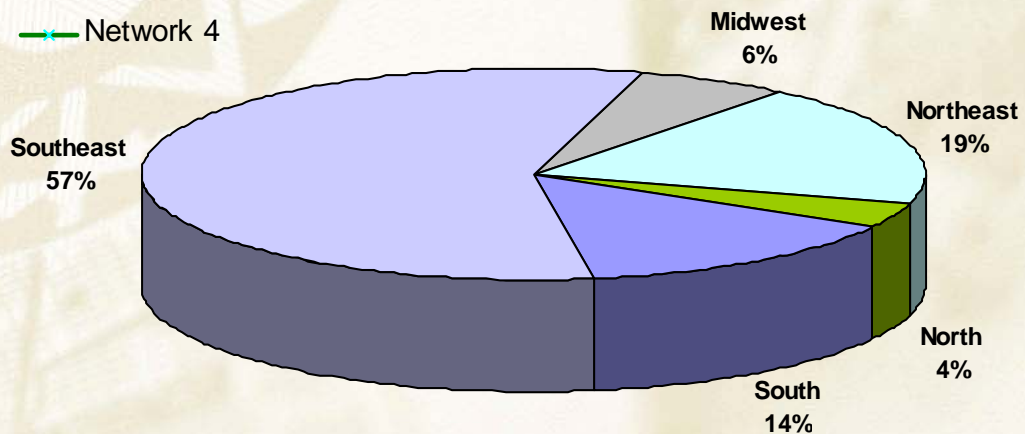
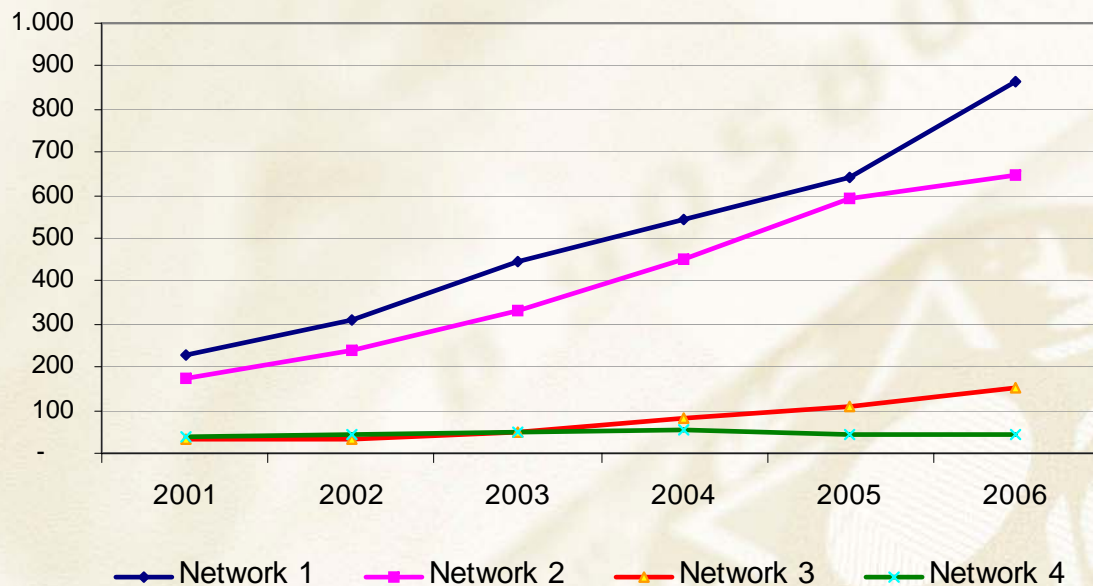
Non-cash instruments – Total volume

Millions



Report on the Brazilian Retail Payment System Payment Cards Industry in Brazil – POS networks

Thousand



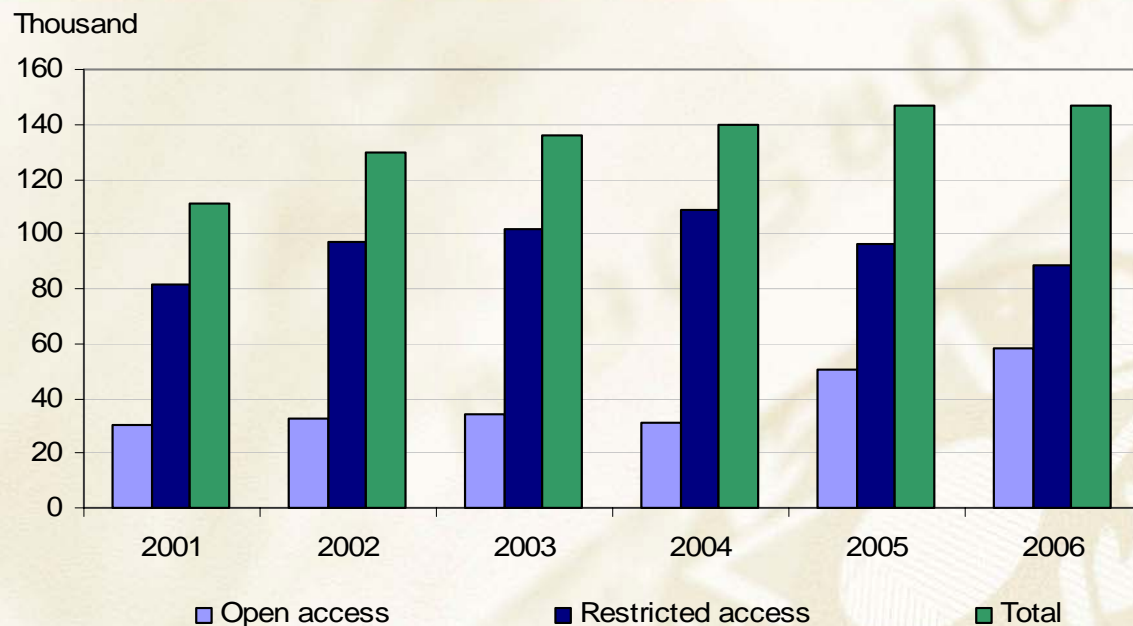
Report on the Brazilian Retail Payment System Payment Cards Industry in Brazil – Main Features

- **Acquirers**

- Only one acquirer per card brand
- Acquirers are bank-owned but are not banks
- Vertically integrated industry: acquirers provide infrastructure services and authorize merchants
- Lack of cooperation on infrastructure: networks are not interoperated (ex. POS terminal)
- Large array of products and services: network is used for other products (cash-back, prepaid mobile phone recharge, “correspondente bancário”)

Report on the Brazilian Retail Payment System – ATM Market

Number of Terminals

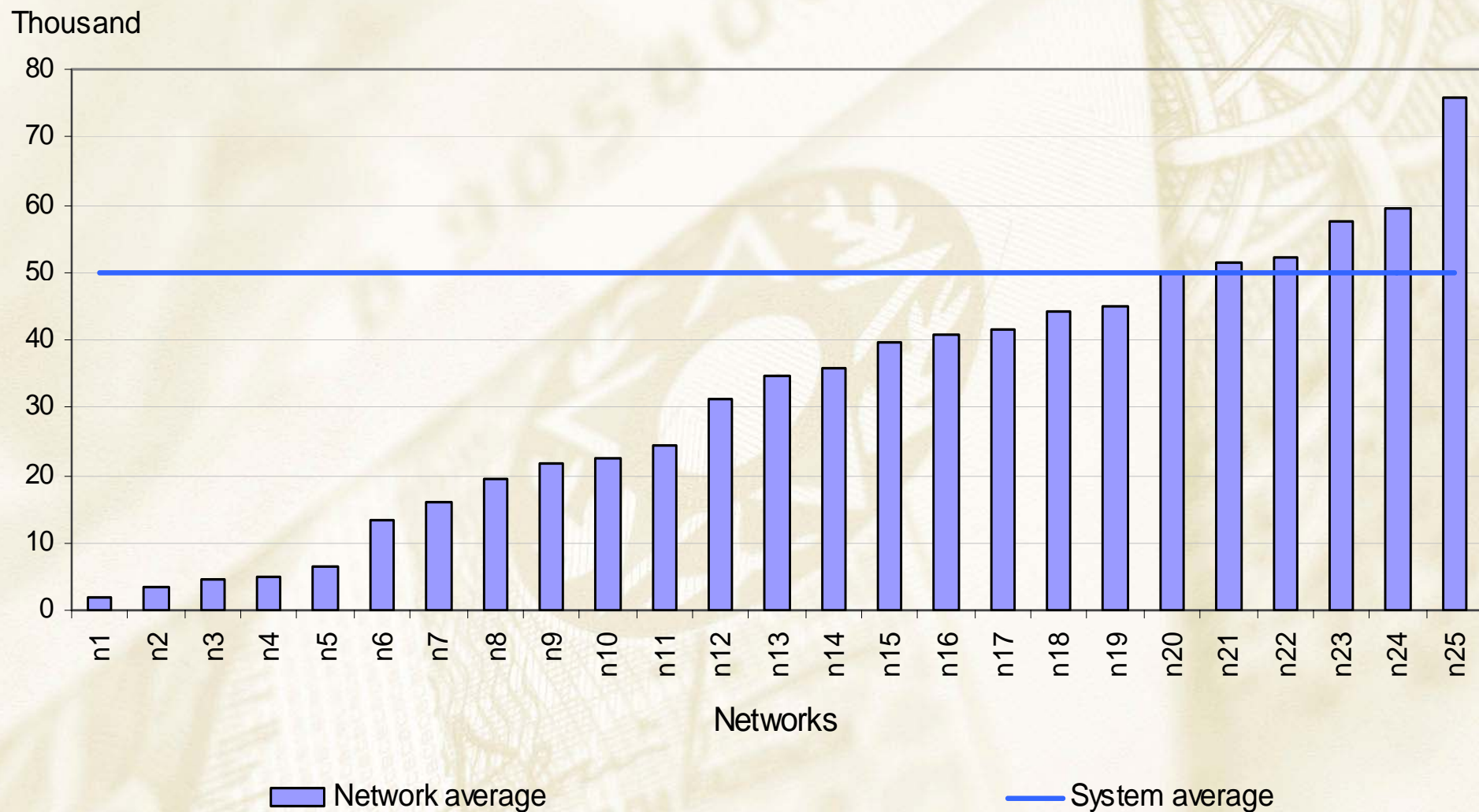


ATM sharing

Quantity

	2004 (%)	2005 (%)	2006 (%)
Transactions in shared ATM's	2	7	10
Transactions in private ATM's	98	93	90

Report on the Brazilian Retail Payment System Average Number of Transactions Per ATM (2006)



Report on the Brazilian Retail Payment System Infrastructure Market – Main Features

- Low usage of installed capacity, raising fixed costs per transaction
- Low interoperability, geographical overlapping
- High costs of networks logistics, development and maintenance
- Insufficient standardization of communication protocols, systems, methods and processes
- Network infrastructure perceived as a competitive advantage in offering payment services

Brazilian Retail Payment System – Points of Inefficiency

- Infrastructure for clearing and settlement of retail payments is fragmented
- Low infrastructure interoperability among payment instruments distribution channels
- Few innovations in products and services

Brazilian Retail Payment System

- Demand side
 - the price mechanism does not work out on the resource allocation, as all bank-customer relationship is priced together (information asymmetry) – bundling
- Supply side
 - does not encompass network effect (positive externality)
 - governance – moral hazard
 - infrastructure as an entrance barrier

Main reactions of the Market – 2007/2008 – I

- Infrastructure interoperability among ATM networks
 - Sharing agreements are expected to increase – four of the largest banks have already begun
 - Two bilateral agreements between three major banks
 - Between one large bank and an open-access ATM network
- Payment card industry
 - Technological difficult
 - Value-added services
 - Investment

Main reactions of the Market – 2007/2008 – II

- Infrastructure for clearing and settlement of retail payments
 - One ACH is in process to absolve the retail electronics instruments
- Innovation
 - M-payment and M-banking as contesters of non interoperable network infrastructure

Next Steps – 2007/2008 – I

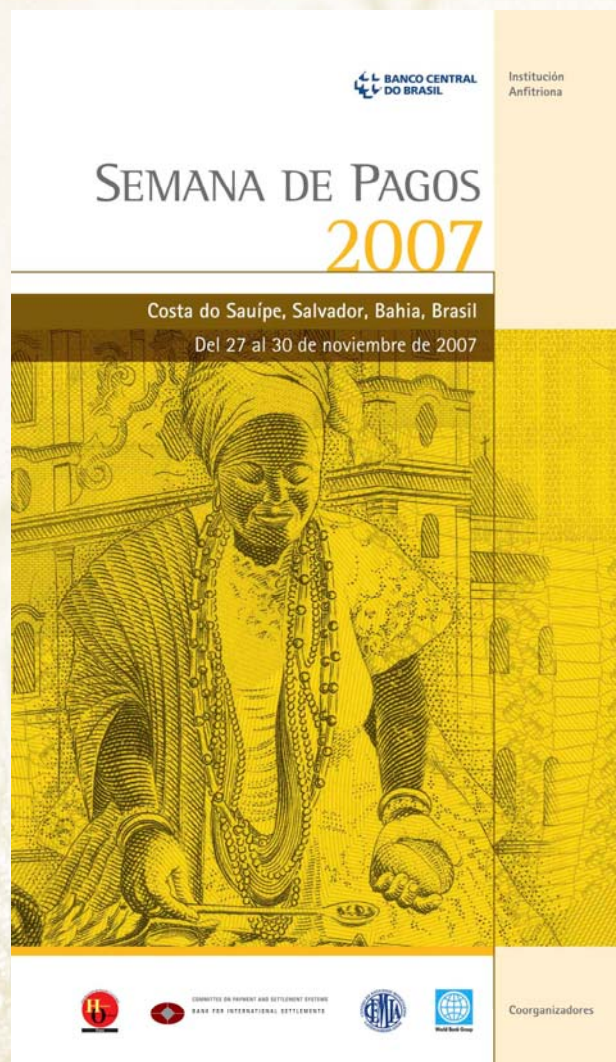
- Publish report on payment card industry:
 - Interchange
 - merchant discount and customer fees
 - Concentration
 - Profitability
 - Governance
- Induce another round of talks among main retail market players
 - Regarding the fragmented infrastructure, the payments card industry and new services and products, in order to keep the BCB in the centre of the discussions
 - Regulate if necessary

Next Steps – 2007/2008 – II

- Publish new directives focusing on the retail payment system efficiency
 - Transparency in BCB policy
- Continue to monitor
 - Keep following market evolution, acting as catalyst for conflict resolution
 - Regulate if necessary

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