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
• 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

[Graph showing the total volume of non-cash instruments from 2001 to 2006 for Cheque, Debit card, Credit card, Direct debit, and Interbank credit transfer.]
Report on the Brazilian Retail Payment System
Payment Cards Industry in Brazil – POS networks

Graph showing the growth of POS networks in Brazil from 2001 to 2006, with a y-axis labeled 'Thousand' ranging from 0 to 1,000.

Pie chart highlighting the regional distribution of POS networks in 2006:
- Southeast: 57%
- Northeast: 19%
- Midwest: 14%
- North: 6%

The pie chart also indicates that there are four networks:
- Network 1
- Network 2
- Network 3
- Network 4
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

<table>
<thead>
<tr>
<th>Year</th>
<th>Open access</th>
<th>Restricted access</th>
<th>Total</th>
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<tr>
<td>2001</td>
<td>12</td>
<td>160</td>
<td>172</td>
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<td>2002</td>
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<tr>
<td>2006</td>
<td>160</td>
<td>160</td>
<td>320</td>
</tr>
</tbody>
</table>

ATM sharing

<table>
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<tr>
<th>Year</th>
<th>Transactions in shared ATM’s (%)</th>
<th>Transactions in private ATM’s (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>2</td>
<td>98</td>
</tr>
<tr>
<td>2005</td>
<td>7</td>
<td>93</td>
</tr>
<tr>
<td>2006</td>
<td>10</td>
<td>90</td>
</tr>
</tbody>
</table>
Report on the Brazilian Retail Payment System Average Number of Transactions Per ATM (2006)
• 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 contestor of non interoperable network infrastructure

- 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
Mardilson Fernandes Queiroz
Head of Division of Payments Systems

mardilson.queiroz@bcb.gov.br
+55 (61) 3414-1629