Brazilian Payment System
Developments
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Payments Week – October, 2010
Brazilian Payment System

- Overview
- Recent improvements and transformations – STR and SSS
- Retail Payment Systems
Brazilian Payment System Overview

- 148 Financial Institutions – direct access
- 5 Securities Settlement Systems
  - BM&Fbovespa Securities – federal bonds
  - BM&Fbovespa Derivatives – commodities, futures, options and swaps
  - BM&Fbovespa Forex – interbank foreign exchange
  - BM&Fbovespa – stocks and corporate bonds
  - Cetip – swaps, corporate and regional government bonds
- 3 Funds Transfer Settlement Systems
  - STR – reserve transfer / RTGS
  - Sitraf – funds transfer / hybrid settlement system
  - Siloc – low value credit order / DNS
- Cheques clearing
- Selic - central depository of securities issued by the National Treasury
STR – problems recently addressed

- Few financial institutions with direct access to central bank money settlement: unfair treatment / no reason nowadays
- Concentration risk: indirect participants using few direct participants
- Low competitiveness and efficiency in the payment services market (direct participants)
- Intraday liquidity management for small institutions / Reduce liquidity costs for others
- Oversight improvement on institutions with direct access
STR – recent improvements

- Access policy:
  - Broader the range of financial institutions with direct access to central bank money settlement
  - Reduce concentration risk
  - Stimulate competitiveness and efficiency in the payment services market
  - Improve oversight of institutions
  - Provide low-cost and secure access for small institutions to access the STR directly (STR-Web)

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<tr>
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- Liquidity saving mechanisms:
  - Enhanced intraday liquidity management for small institutions
  - Reduced liquidity costs
Brazilian Securities Settlement Systems – Industry transformations

**Governance**
- Restrictions on ownership
- Governance arrangements
- Self-regulatory functions

**Industry changes**
- Demutualization
- IPO
- Merger

**Risk Management**
- Best practices
- Systemic Risk
- Regulatory capital requirements

**Monopoly with vertical integration**

**Commercial vs. Public**

**Actions**

**Regulators**
- Oversight
- Standards
- Regulation

**Competition**
- Fee structure
- Access
- Innovation
Retail Payment Systems Diagnosis

Report on the Brazilian Retail Payment System:
- Infrastructure as a competitive factor (barriers to entry) in the payment services supply
- Settlement infrastructure fragmentation
- Low level of interoperability among ATM networks
- Low level of interoperability among POS networks
- Price system does not provide a proper allocation of resources (indirect pricing and cross-subsidies)

Report on the Brazilian Payment Cards Industry:
- four-party schemes: contractual exclusivity and vertical integration (acquirer + NSP + ACH)
- lack of interoperability (POS networks)
- weak local debit arrangement
- lack of price transparency and
- No surcharge rule
Retail Payment Systems
Changes

- Retail Payment System:
  - Fragmentation: TecBan, MasterCard settled at CIP (Visa in process)
  - ATM: multilateral agreement between banks (e.g.: BB, Bradesco, Santander & Caixa)

- Payment cards industry
  - Multiple multi-scheme acquirers
  - Neutrality in the activities of clearing and settlement
  - establishment of national schemes of debit cards (e.g. ELO)
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