

News Section

Brazil

BANKING REGULATION

Retail payments

The Brazilian regulator stimulates increased efficiency in retail payments

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The Brazilian Regulator Stimulates Increased Efficiency in Retail Payments

On 26 March 2018, the Central Bank of Brazil (*Banco Central do Brasil*—Bacen) published three circulars, which are mentioned below, related to arrangement and payment institutions, with the purpose of:

- (1) increasing the use of electronic instruments in Brazil, including the debit card, increasing the scale and generating cost savings potential for users;
- (2) enhancing the competitiveness in the sector, increasing incentives for innovation and ensuring access to available infrastructure for new entrants;
- (3) strengthening market governance, seeking better representation of participants and regulation and supervision focused on those institutions that generate greater risk to the system;
- (4) encouraging the supply and consumer product differentiation, with greater transparency on costs, encouraging the differential pricing between spot and forward payment; and
- (5) strengthening the use of the debit card as a means of payment and of the credit card as a credit instrument.

Law No.12,865 of 9 October 2013 brought to Bacen skills about arrangement and payment institutions in order to ensure the safety and efficiency of the market. Since then, among other advances, new participants and new products were admitted and the competition in the accreditation and issuance markets has increased.

In order to reduce the cost of the debit card for trade, as from 1 October 2018, Bacen Circular 3,887¹ will limit the average exchange rate of debit cards to 0.50% of the transaction value and the maximum rate to 0.80% of the transaction value. The exchange rate is paid by the merchant's acquirer to the bearer of the debit card issuer and determines the price charged of the merchant² (merchant discount rate—MDR).³ This specific rate adjustment is practised internationally.

The final price charged by the acquirer of the merchant is formed by three components:

- the exchange rate defined by the credit card flag (Visa, Mastercard and Elo) to remunerate the bank that issues the card;
- the rate that the credit card flag charges of the acquirer in the form of royalties; and

¹ Bacen Circular 3,887 sets maximum limits for the exchange rate in domestic payment arrangements for purchase and demand deposit accounts.

² The merchant is the business establishment.

³ For the past eight years, the rate of exchange of debit cards increased from 0.79% to 0.82% of the transaction value while the transaction discount rate fell from 1.60% to 1.45% of the transaction value. To ensure that there is an additional reduction in those rates, Bacen decided to limit the level of the exchange rate. This already occurs in other regions of the world, such as the EU, South Africa, Argentina, Australia, China, the US and Israel.

- the MDR, which comprises the costs and the profit margin of the acquirer.

Bacen hopes that this reduction is passed on by the acquirer to the merchant and down towards the consumer, through competition and also the possibility of differential pricing. With lower costs, debit cards must become more competitive, compared to other means of payment, such as cash, wire transfers and credit cards, increasing their use. The increased use of debit cards for payments and credit cards as credit instruments has the potential to reduce cross-subsidies.⁴

Bacen Circular 3,886⁵ simplifies and gives more agility to the process of authorisation of payment arrangements, allowing the market to evolve dynamically, with greater regulatory safety and with clearer rules, without prejudice to the maintenance of their security and efficiency. This circular also stipulates that entry into the centralised settlement for sub-acquirers, scheduled for 28 September 2018, becomes mandatory only for those who have more than BRL 500 million annual turnover, which represents about 90% of this market. Another change envisaged in this circular removes the scope of regulation of the Monetary Authority's payment arrangements arising from government benefits programmes, including the food voucher. As these programmes are already regulated by other government agencies, the aim is to avoid further regulatory cost imposed by duplicate regulation.

In order to encourage the entry of new competitors, innovation and new product development, Bacen Circular 3,885⁶ states that only electronic currency issuers, post-paid payment instrument issuers or acquirers with an annual turnover greater than BRL 500 million or at least BRL 50 million in funds held in payment accounts must be necessarily authorised by Bacen. The others are exempt from Bacen's authorisation.

In summary, these measures strengthen the regulation and supervision of those institutions that generate greater risk to the system. At the same time, they reduce the costs, increasing flexibility for the entry of new participants which may increase competition in the market, innovation and new product development.

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⁴ Greater transparency in prices for the end user is essential for the society as a whole to gain the best use of payment instruments. In this sense, Bacen also develops communication actions and financial education.

⁵ Bacen Circular 3,886 amends Bacen Circular 3,682, of 4 November 2013, which regulates the provision of service payment under the arrangements which are members of the Brazilian Payment System (*Sistema de Pagamentos Brasileiro*—SPB) and the regulation attached thereto.

⁶ Bacen Circular 3,885 establishes the requirements and procedures for authorisation for operation, alteration of control and corporate reorganisation, cancellation of the authorisation for operation, conditions for the exercise of administrative positions in payment institutions and authorisation for the provision of payment services by financial institutions and other institutions authorised to operate by Bacen.