

Unclassified

English - Or. English

21 September 2021

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
COMPETITION COMMITTEE**

**LATIN AMERICAN AND CARIBBEAN COMPETITION FORUM - Session III: Competition
and Payment Card Interchange Fees**

- Contribution from Peru -

20-22 September 2021

The attached document from Peru is circulated to the Latin American and Caribbean Competition Forum FOR DISCUSSION under Session III at its forthcoming meeting to be held on 20-22 September 2021, via a virtual Zoom meeting.

Ms. Lynn Robertson, Competition Expert, OECD Competition Division - Lynn.Robertson@oecd.org.

JT03481218

Session III: Competition and payment card interchange fees

Card payment services

– Contribution from Peru –*

1. Economic agents can use various means of payment to carry out transactions. These include cash, cards, cheques and bank transfers, among others. In Peru in 2019, cash was the most important means of payment and was used in 85% of purchases.¹ Among means of payment other than cash, credit and debit cards were responsible for 61% of total transactions in 2017, followed by bank transfers with 35%.²
2. Credit and debit cards can be used in many physical or virtual payment channels, including sales or POS terminals, mobile banking and websites, among others. Bank transfers can also be made through physical payment channels by means of electronic wallets,³ or through virtual channels by means of mobile banking.
3. Although bank transfers can be an alternative means of payment to cards, particularly with electronic wallets, their use is restricted in ways that do not apply to cards. For example, these wallets are associated to a bank account, have a maximum transaction limit (between PEN 500 and PEN 1 500 – Peruvian nuevo soles – per day), and some require consumers and businesses to have an account with the same bank to be able to carry out transactions. In addition, some agents (acquirers and payment facilitators) allow businesses to use both cards and electronic wallets, showing that their use is complementary.
4. Card payments have become particularly significant in Peru in recent years, with an increase of 60% and 51% respectively in the number and value of transactions processed between 2015 and 2020. This growth was affected by the impact of the Covid-19 pandemic in 2020 (Figure 1).

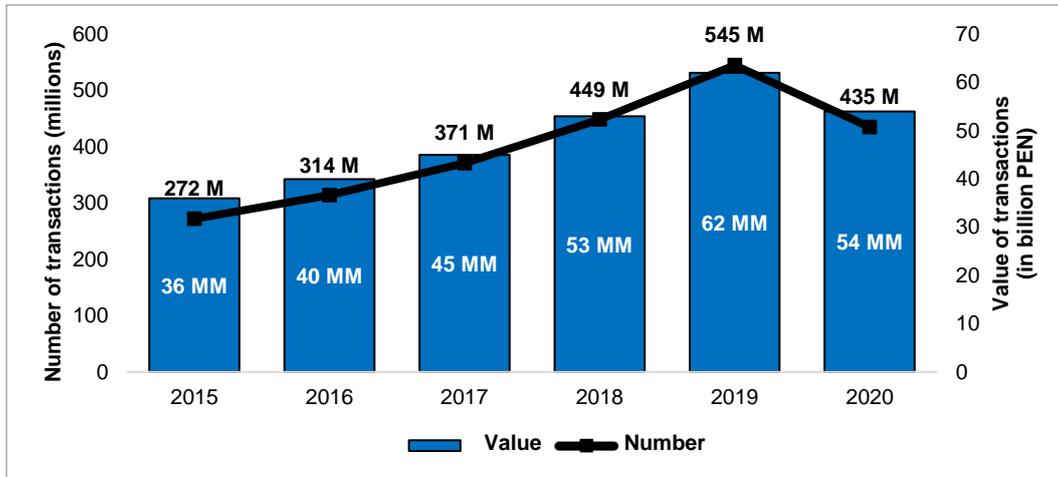
* This document has been drafted by the Secretaría Técnica de la Comisión de Defensa de la Libre Competencia (Technical Secretariat of the Competition Commission at Peru's competition agency, Indecopi). The opinions presented herein do not necessarily reflect the position of Indecopi.

¹ BBVA (2019), ¿Cuál es el futuro del efectivo and otros medios de pago en el Perú? [What is the future for cash and other means of payment in Peru?], 4 July 2019, available at <https://www.bbva.com/es/pe/cual-es-el-futuro-del-efectivo-y-otros-medios-de-pago-en-el-peru> (last visited on 18 August 2021).

² ASOCIACIÓN DE BANCOS DEL PERÚ – ASBANC (2017), Reducción del uso del dinero en el Perú [Reduction in the use of money in Peru], available at <https://www.asbanc.com.pe/prensa/Reduccion-del-uso-del-dinero-en-efectivo-en-el-Peru.pdf> (last visited on 18 August 2021).

³ Such as Yape wallets from Banco de Crédito del Perú, or Lukita from Banco BBVA Perú.

Figure 1. Development of card payments in Peru, 2015-2020



Source: Banco Central de Reserva del Peru (BCRP)

Preparation: Indecopi

5. In February 2021, Indecopi, aware of the importance of card payment services in the market, published its preliminary report into the market study of card payment services, which contained an analysis of the conditions of competition in which such services are provided, the competition issues identified and the recommendations that seek to make the market more efficient for consumers.

6. The Visa, Mastercard, American Express and Diners brands, among others, are used in Peru. In 2020, Visa was the most important brand (69% of credit cards and 79% of debit cards), followed by Mastercard (19% of credit cards and 21% of debit cards). On the issuing side, in July 2021 there were 31 banking and financial companies which issue different brands of cards.

7. On the acquiring side, until 2019 there was one brand acquisition model. The brands (Visa or Mastercard) had granted an acquisition licence to a single acquirer (Visa to Niubiz and Mastercard to PMP). Since January 2020, however, Niubiz and PMP have held Mastercard and Visa licences, marking the beginning of the multi-brand acquisition model. In the same way as for the issuing side, on the acquiring side Visa had been the most widely used brand, with 82% of the value of transactions in 2019, followed by Mastercard with 11%.

8. Multi-brand acquisition fostered a change in the market. Niubiz reduced its share in the value of transactions, with a fall from 94% to 79% in debit cards and from 78% to 74% in credit cards between 2019 and 2020. PMP meanwhile increased its share in that period from 6% to 21% in debit cards and 11% to 14% in credit cards.

9. Between 2015 and 2019, the weighted average discount rates charged by acquirers tended to decrease. Niubiz rates fell from 2.55% to 2.37%, while PMP rates fell from 3.18% to 2.96%. Despite that reduction, these rates were high compared to those observed in other countries in the region, such as Colombia and Mexico.

10. Meanwhile, another kind of agent known as a payment facilitator was active in the market. These agents recruit businesses to accept cards on behalf of acquirers, specialising in low sales volume businesses. Since their appearance, these facilitators have enabled businesses to accept all brands of cards via a single contract and terminal. It is therefore important for these entities to establish contracts with acquirers of all brands. In June 2019, 30% of the value of transactions via payment facilitators went to Izipay, owned by PMP, followed by PayU (29%) and VendeMás (18%), owned by Niubiz.

11. There are two payment processing agents, Niubiz and PMP, which also offer acquisition services. Niubiz was originally responsible for processing its own transactions alone (Visa brand only), while PMP covered the remaining acquirers and brands. At the beginning of 2020, however, with the multi-brand acquisition model and negotiations between agents, both Niubiz and PMP began to process the transactions of all acquirers and brands.

12. Multi-brand acquisition has also given rise to a change in the way in which the interchange fee is determined. Up to 2019, the interchange fee was fixed by means of multilateral negotiations between the acquirer and the issuers of each brand, giving rise to a fee of close to 80% of the discount rate, without greater differentiation between the type of card or the category of business within which the transaction originated.

13. In the context of implementing the multi-brand acquisition model in Peru, however, this form of definition has changed and is now fixed by the *card brands, with the effect that the new procedure includes a differentiation* in interchange fees between the type of card and the category of business, among other aspects.

14. Finally, the regulation of card payment services is shared between the Superintendencia de Banca, Seguros y AFP (Superintendence of Banking, Insurance and Pension Fund Administrators), which regulates the security, treatment of fraudulent operations and minimum content of contracts between cardholders and issuers on the one hand, and the Banco Central de Reserva (Central Reserve Bank) on the other. The latter can gather particular information on the nature and volume of transactions and the functionality and risk control measures of agents.

15. The preliminary report into the market study of card payment services drawn up by Indecopi found evidence that could raise problems in terms of competition. In that regard, a characteristic of these services in Peru is the existence of vertical ownership relations between brands, issuers, acquirers, payment processors and payment facilitators. It was observed, in particular, that: (i) Visa was a Niubiz shareholder; (ii) three acquirers had common shareholders (banks); (iii) the two payment processors were owned by acquirers; and (iv) two payment facilitators were owned by acquirers.

16. These ownership relations between Visa and Niubiz could have an effect on the incentives of the brand to grant licences to other acquirers, on the provision of compensation and liquidation services and on potential access to competing brand information.

17. Ownership relations between issuers (banks) and acquirers could bring about transfers of information between competing agents through the presence of common shareholders and directors.

18. Finally, ownership relations between acquirers and payment processors and facilitators could have an effect on incentives for providing services from payment processors to unconnected acquirers, for example, and some agents could be disadvantaged by lack of access to information on relevant fees in the market.

19. In that respect, the report made a number of recommendations to enable market agents and public administration bodies to improve competition in the market, specifically recommending that Visa should establish a procedure for granting licences and providing services to unconnected acquirers which would be neutral, non-discriminatory and timely, involving full, unrestricted and public information, and that measures should be taken to ensure that confidential privileged information that is available to Niubiz should not be accessed or used. Recommendations were also made for Visa to follow in the event that it wished to dissociate itself from the administration of Niubiz or sell its shares in that company.

20. Acquirers, facilitators and payment processors, meanwhile, were advised to establish a procedure to ensure that the provision of services to unconnected agents would be neutral, non-discriminatory and timely, involving full, unrestricted and public information. The Banco Central de Reserva was also advised to establish a procedure for gathering and publishing information relevant to improving the functioning of the market and assessing its future behaviour.

21. Finally, Indecopi interacts closely with other public administration institutions which oversee or regulate card payment services and encourages cooperation between institutions. Indecopi and the Banco Central de Reserva thus ensured coordination and held meetings to improve access to relevant information on these services in order to draw up the market study. Indecopi and the Superintendencia de Banca, Seguros y AFP have also been taking part in a work group run by the Comité de Inclusión Financiera (Financial Inclusion Committee), the objective of which is to promote free competition in financial service markets.