

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

Digital Disruption in Financial Markets – Note by Brazil

5 June 2019

This document reproduces a written contribution from Brazil submitted for Item 5 of the 131st OECD Competition committee meeting on 5-7 June 2019.

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JT03447588

Brazil

Competition and Innovation in the Payment Card Industry

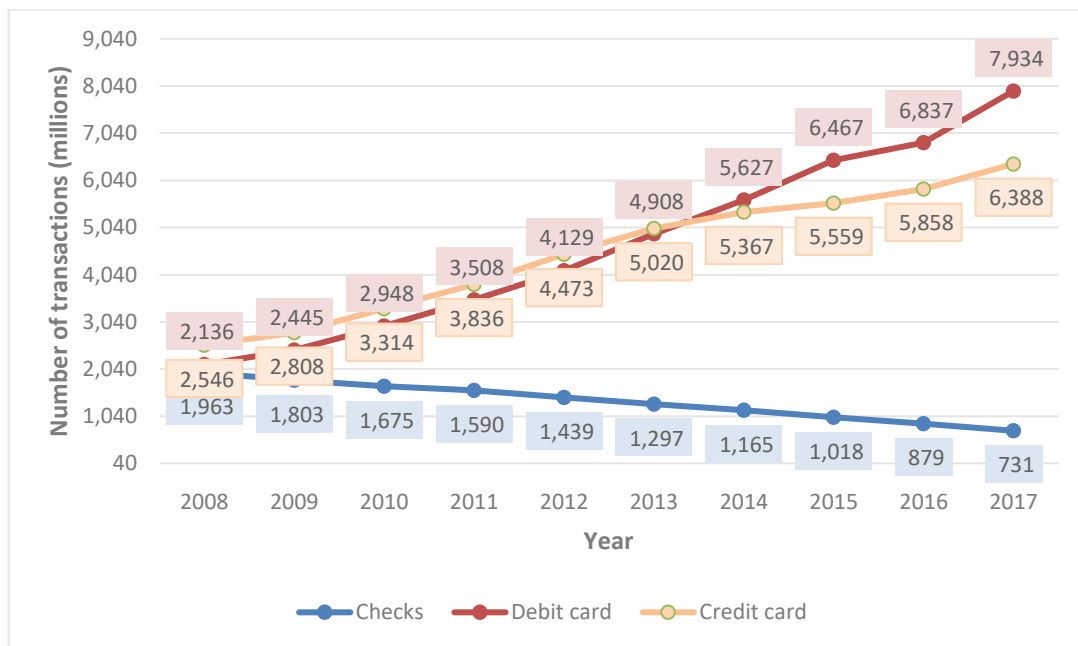
1. Introduction

1. As technological progress took place in economies all over the world, commercial transactions faced a substantial change especially in regard to payment methods. Until the 1950s, consumers had limited access to different payment methods, since cash (paper money) and cheques were almost the only options available. Nowadays, digital payments have become more accessible, and transactions undertaken in physical stores had to be adapted to deal with the new payment methods that have arisen: credit and debit cards.

2. In Brazil, as soon as the inflation was controlled in the 1990s, consumer confidence started rising. This contributed to the dissemination of the payment cards as a reliable way to buy and sell products and services. As shown in Graph 1, from 2008 to 2017, the number of debit and credit card transactions increased more than 300% and 200% respectively. This significant increase in payment cards transactions can be explained, to some extent, by the convenience and security these payment methods brought both to consumers and sellers.

3. Moreover, unlike in most countries, in Brazil, consumers use credit cards mainly as a payment method, instead of using it as a credit line. In many cases, there is no price differentiation between debit and credit transactions. However, consumers often prefer to use credit cards, even if they have enough money in their bank account to carry out the transaction. Since this credit line is easier to be approved, there is an additional incentive for people to use this payment method, which in turn, might also impact interest rate spreads. In other words, the use of these cards has become common either for lump sum payment or installment payment. The risk of default does not disappear, it is just transferred from the merchants to the card issuing companies.

4. In addition, as seen in Figure 1, the amount of transactions done by cheques is gradually decreasing. Taking this scenario as a whole, this trend can also be explained by the growing use of payment cards and the continuous expansion of financial transactions made online or by mobile apps.

Figure 1. Number of transactions by payment methods (2008 – 2017)

Source: Central Bank of Brazil

Elaboration: Department of Economic Studies (DEE)

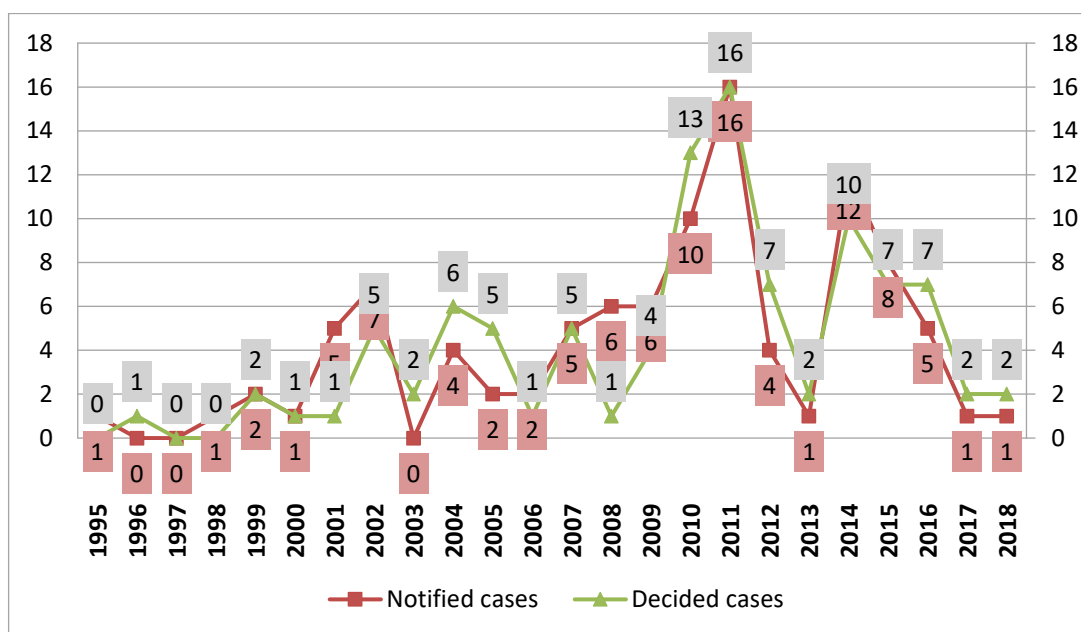
5. By the time people started using payment cards instead of paper money and cheques, not only did electronic payment methods develop, becoming more and more complex, but this also enabled the appearance of new types of financial services: FinTechs or Financial Technology. Most FinTechs are being created to provide electronic payment services and consumer credit solutions. To enable the emergence of these new financial services and, at the same time, to ensure industry competition, many changes took place, in terms of Central Bank regulations, enforcement activities by the Brazilian antitrust authority and competition advocacy by the Secretariat for Competition Advocacy and Competitiveness (SEAE).

2. Challenges faced by CADE in the payment card industry

6. As described in the following paragraphs, when dealing with cases related to the payment card industry, the main challenges faced by The Administrative Council for Economic Defense (CADE) were associated with the particularities of the retail payment systems. In the first place, since this market works as a multi-sided platform, traditional microeconomic tools for analysing it are not appropriate. This is mainly due to the fact that these tools do not take into account the existence of network effects between its different groups (issuers, acquirers and scheme owners/card brands).

7. Furthermore, the payment card industry also raises concerns about its market concentration ratio. As shown in Figure 2, from 1995 to 2018, CADE analysed an extensive number of mergers and acquisitions related to this market. These numbers reflect all cases in which there is at least one participant of the payment card system, such as issuer companies, acquirers (payment processors) and scheme owner (card brands).

Figure 2. Mergers and acquisitions related to the payment card industry (1995 – 2018)



Source: Administrative Council for Economic Defense (CADE)

Elaboration: Department of Economic Studies (DEE)

8. As mentioned before, the Brazilian economy faced a remarkable performance in the 1990s. Not only did the country achieve economic stability, but many adjustments were also done in the Brazilian bank system to enable its development. During that time, many state banks were privatised and the other ones that were facing financial problems ended up being acquired by bigger players. Therefore, the changes that took place at that time directly contributed to the increase of market concentration in the banking system. The banking system, in turn, is the main sector responsible for issuing payment cards. Nowadays, nearly five banks (including Itaú Unibanco, Banco do Brasil and Bradesco) manage not only the card-issuing process¹, but also have some control over the card brand side and the acquirer side.

9. Furthermore, market concentration is not limited to the issuer companies. On the acquirer side, the same trend can be seen, as Visanet (now known as Cielo) and Redecard (now known as Rede) control close to 67% of this market. In 2010, the market-share distribution of this market was even worse, as these companies operated as a duopoly and had an exclusive agreement with the main card brand companies. Until that time, the possibility of market entry was very limited, since access to the card brands was restricted to the incumbents in the acquirer market.

10. The same was true for potential new entrants to the card brand industry (scheme owners' industry), bearing in mind that Visa and Mastercard were the most renowned brands and only Visanet and Redecard used to have access to them. Today, this market is still highly concentrated, as Visa and Mastercard control almost 90% of the credit card market and 67% of the debit card market.

¹ Some non-banking companies also play an important role in the card-issuing industry.

11. Under this perspective, in 2010, CADE prohibited the existing exclusionary agreement between incumbents, setting up a “Cease and Desist Agreement”² to ensure that other companies could engage in Visa and Visanet (Cielo) systems. Back then, only Visa and Visanet had an official exclusionary agreement, while Mastercard and Redecard (Rede) had just an informal arrangement. However, as soon as the exclusionary agreement between Visa and Visanet was prohibited, Mastercard and Redecard also opened their system to other competitors. In this context, such intervention should be considered only as the first step taken by CADE to foster competition and innovation in the payment card industry.

12. Along with the market concentration ratio, another issue that raises concerns in the payment card industry is the potential effect that vertical integration may have on its competitive dynamics. Even though vertical integration is not illegal *per se*, since the payment card industry is already fairly concentrated, as incumbent banks started to take control over other links of the value chain, these circumstances led to new anti-competitive practices.

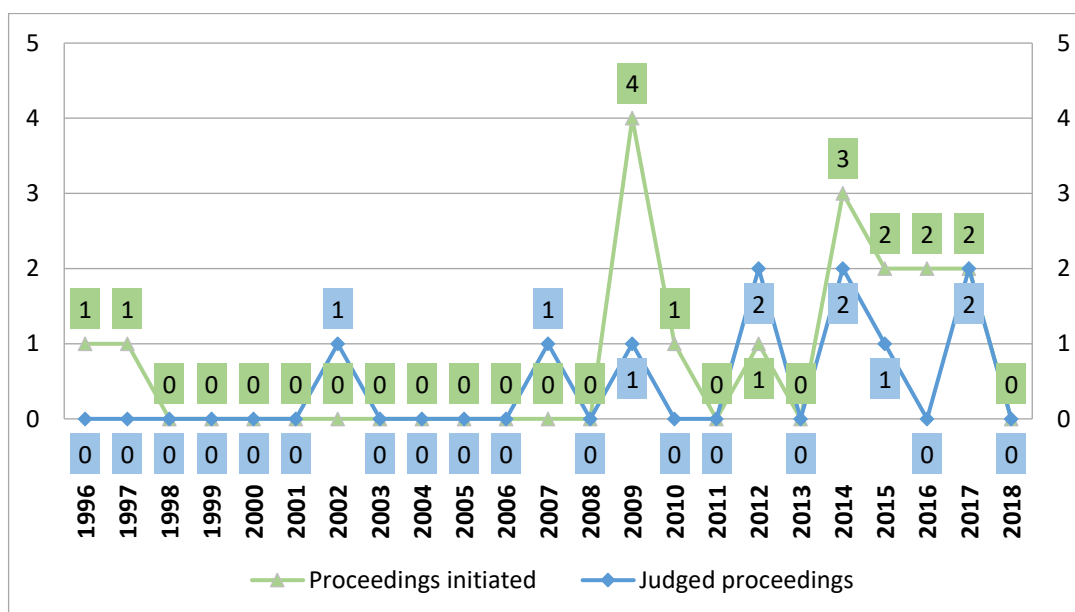
13. In this regard, when assessing the payment card industry, CADE still faces many challenges related to the complexity of this market and with its own specific features. Among these challenges, three of them are particularly important to help understand the environment in which new anti-competitive practices emerged: payment card industry as a multi-sided platform, market concentration ratio and, finally, vertically integrated companies. These features not only provided a favorable environment for the emergence of anti-competitive conducts, but also imposed entry barriers to new competitors that could foster competitive pressure and innovation.

3. Conducts related to the payment card industry

14. From 1996 to 2018, Cade initiated a total of 13 conduct investigations related to the payment card industry. Out of these investigations, six were archived and the remaining ones resulted in “Cease and Desist Agreements”. The content of these cases involved mainly exclusionary agreements, discriminatory treatment, refusal to contract, tie-in sale and cartels.

² “Termo de Compromisso de Cessaç o”, known by its Brazilian acronym TCC.

Figure 3. Anti-competitive practices related to the payment card industry (1995 – 2018)



Source: Administrative Council for Economic Defense (CADE)

Elaboration: Department of Economic Studies (DEE)

15. In terms of exclusionary practices, the breakage of the Visa and Visanet exclusive agreement was one of the first interventions conducted by CADE. Although this practice is not *per se* illegal, since the payment card market is characterised by network effects, there is no sense in establishing such agreements between the acquirer and the card brand sides. The existence of network effects makes the number of consumers play a significant role in making the platform more and more attractive. The higher the number of card brands captured at the Point of Sale (POS)³, the more attractive the latter will be to consumers (in this case merchants). Likewise, the higher the number of different Points of Sale that capture a specific card brand, the more attractive the latter will be to cardholders. This is one of the reasons why traditional microeconomics tools are not appropriate to deal with cases involving multi-sided platforms.

16. In this perspective, as highlighted in the “Report on the Brazilian payment card industry”⁴, these exclusive contracts were considered entry barriers for new entrants and detrimental to innovation advances. Among other conducts, exclusive agreements represent 46% of the anti-competitive practices investigated by CADE. This type of contracts was not restricted to the acquirers and the card brands sides, since CADE also analysed cases involving exclusive agreements established between issuers and card brands, issuers and vouchers, acquirers and payment gateways, grocery stores and card brands.

17. As previously described, the payment card industry is highly vertically integrated and, after CADE prohibited exclusive agreements in this market, this vertical structure has

³ Point of Sale (POS) terminal providers represents the acquirer side.

⁴ Technical report done by the Brazilian Central Bank in partnership with the Secretariat of Economic Law (SDE) and the Secretariat for Economic Monitoring (SEAE), divisions at the Ministry of Justice and the Ministry of Finance, respectively.

enabled the maintenance of these contracts. This happened because some of the main issuer banks either created their own card brands - or already had their own - and, at the same time, had control over companies at the acquirer side. The Elo case illustrates this point. A new card brand was created through the joint venture between Banco do Brasil, Bradesco and Caixa Econômica Federal, and by the time these banks created Elo, Banco do Brasil and Bradesco already had control over Cielo (former acquirer Visanet) and established an informal exclusive agreement with the card brand side and the acquirer side⁵.

18. The remaining exclusive agreements were mainly a result of two different models of transaction capture: full acquirer and value-added network (VAN)⁶. In the full acquirer modality, acquirers have full access to the card brands and, besides capturing transactions, they also determine the merchant discount rate (MDR), settle transactions, negotiate commercial conditions with their clients and have control over the merchants' receivables. In this case, the merchant discount rate is flexible, and is directly proportional to the transaction value. Acquirers that capture Visa and Mastercard (card brands) transactions follow the full acquirer model. Since the latter are free to establish their own commercial conditions in the full acquirer model, one can say that this environment provides better conditions for acquirers to compete.

19. On the other hand, in the VAN modality, non-vertically integrated acquirers serve only as a provider of necessary infrastructure to capture transactions. In other words, while the acquirers controlled by incumbent banks were able to establish their own commercial conditions, the same did not apply to independent acquirers. Hence, when dealing with card brands or vouchers that operate under VAN modality, acquirers have limited freedom, not being able to determine the merchant discount rate or the conditions in which their services are going to be provided to their clients. In this perspective, acquirers that capture American Express, Hipercard, Elo and vouchers transactions follow (or use to follow) the VAN model. Unlike the full acquirer arrangement, in the VAN scheme, acquirers that are not vertically integrated receive a flat rate to each transaction.

20. Since vertically integrated acquirers were the only ones allowed to operate as full acquirers in the card brands schemes controlled by the same conglomerate, this environment ended up masking the maintenance of exclusive agreements between the acquirer and the card brand sides. If competitors – independent acquirers - wanted to capture transactions with the vertically integrated card brands, they would necessarily have to operate in the VAN modality. Moreover, vertical integration has not only provided a favorable environment for the maintenance of exclusive agreements, but also contributed to the emergence of other anti-competitive practices.

21. In terms of conduct, another matter of concern in this market is related to the merchant's receivables. When consumers carry out transactions and use their payment card to complete their purchases, merchants begin to accumulate money in their bank account. However, to manage short-term obligations, merchants often need to use this money and,

⁵ It is also important to highlight that there was a self-regulation of the Brazilian Association of Credit Card Companies (ABECS), which enabled vertical integration between players that had less than 20% of the market – both in the acquirer and/or the card brand sides.

⁶ While the full acquirer is an infrastructure modality in which non-vertically integrated companies usually undertake transactions.

therefore, the merchant cash advance⁷ becomes an appealing source of funding. In the payment card industry, there are two possible cash advance providers: acquirers and the merchant's bank.

22. Thus, a merchant could choose his acquirer to provide the cash advance but, depending on the bank in which the payment card transactions were being settled, the latter could hamper access to the cash advance. The vertically integrated banks did this by refusing to read the merchants' payment card history so that the acquirer could offer the cash advance. Only non-vertically integrated acquirers were facing difficulties to provide the merchant cash advance.

23. Moreover, as soon as the merchant needs to use a cash advance to obtain working capital, the bank automatically uses his past payment history to check his credit limit. When this happens, the same "past payment history" cannot be used again by the merchant in order to obtain another cash advance. For this reason, the bank immediately blocks this past payment history to assure that the merchant does not use it in a new credit operation. However, vertically integrated banks began to use this guarantee as a strategy to prevent merchants from obtaining payment advances from their competitors. In this perspective, even though merchants did not request a cash advance, these banks often used this blockage in an unjustified manner just to prevent merchants from dealing with competitors.

24. Taking this scenario as a whole, as banks hampered access to their competitors in this credit market and since this is an important source of working capital to merchants, these latter ones had additional incentives to deal only with companies that were part of the same conglomerate, such as Rede (acquirer controlled by Itaú Unibanco) and Cielo (acquirer controlled by Banco do Brasil and Bradesco).

25. Furthermore, among other conducts, it is also important to highlight an additional practice that used to restrict competition in the payment card industry. This practice, in turn, is related to the payment terminal machine, since the payment card industry counts on two different infrastructures to capture payment card transactions: Point of Sale (POS) and PIN Pad. While the first one belongs to a single acquirer, the second one enables access to several acquirers and, consequently, to a greater variety of card brands. Since merchants deal with acquirers to obtain the payment terminal, these latter were free to decide whether or not they would include the access key of their competitors in the PIN Pad machine.

26. In light of this, incumbent acquirers – such as Rede, Cielo and Getnet - used this freedom to impose entry barriers to their competitors, as they were refusing to add the key access to some acquirers in their PIN Pad machines or offered merchants older versions of these payment terminals that did not include the key access to new acquirers⁸. Even though the PIN Pad machine enabled more competition and efficiency to this market, since the merchants did not need to obtain more than one payment terminal to handle transactions with a wide variety of card brands, these benefits were not being passed on to new entrants. For this reason, CADE considered this practice harmful to competition.

27. In addition to these three practices mentioned above, the vertically integrated acquirers also used to take revenge on merchants if they decided to deal with their

⁷ Technically, the merchant cash advance is not considered a loan, since the company that provides it gives the seller a lump sum in exchange for a percentage of his daily credit and debit card receipts, plus a fee.

⁸ The Brazilian Association of Credit Card Companies (ABECS) also enabled acquirers to control which key access they would insert in their payment terminal machine.

competitors. This was done mainly through an increase in the merchant discount rate (MDR), the restriction in the lines of credit available for merchants and the imposition of fines and penalties. There was also price discrimination in terms of fees charged to provide some financial services such as the bank settlement and the blockage of merchant's past payment history. Moreover, if a merchant wanted to capture vertically integrated card brands, additional conditions were imposed by the banks that had control over these card brands. As an example, merchants could be forced to open a bank account in these financial companies (tie-in sale). On the other hand, incentives were also provided by acquirers in order to keep their clients in their systems. For this purpose, lower merchant discount rate (MDR) were charged for merchants that achieved a specific amount of sales. Acquirers also used to automatically renew the contract with them.

28. Once again, this environment was not promoting competition among players in the payment card industry and, as a consequence, it was hampering the emergence of new entrants. Since incumbent companies – especially issuers and acquirers - were not facing competitive pressure, they did not have incentives to invest in innovation to offer better products to their clients – merchants and card holders. Therefore, after analysing the anti-competitive practices mentioned above, CADE decided to impose operating conditions to the payment card industry, aiming to improve its competition. These conditions were established in “Cease and Desist Agreements”, under which the Brazilian antitrust authority agreed to halt investigations against the agreement signatories as long as they committed themselves to following the terms of the referred agreement.

4. Remedies adopted

29. Considering CADE's experience with anti-competitive practices in the payment card industry, a total of 13 “Cease and Desist Agreements” were entered into from 1995 to 2018. In this perspective, this section aims to provide a brief overview of these agreements, highlighting their main findings. Additionally, only some of these agreements are going to be addressed. As mentioned above, among many other harmful practices to competition, particular emphasis should be given to three of them: (i) remaining exclusive agreements as a result of two different models of transaction capture, (ii) discrimination practice in terms of merchant's receivables and (iii) discrimination practices in terms of payment terminal machines.

30. Regarding remaining exclusive agreements, two Cease and Desist Agreements were established. First, CADE approved the Itaú Unibanco and Hipercard agreement in April 2017, and then, in July 2017, established another agreement with Elo. In general terms, these agreements determined that card brands and acquirers that were part of the same conglomerate could no longer have exclusive agreements. Against this background, vertically integrated card brands had to give competitors access to their network, easing the merchants' access to other card brands, as they did not have to contract another acquirer to capture transactions with a particular card brand.

31. More recently, in 2018, a total of 4 Cease and Desist Agreements were entered into regarding discrimination practices in terms of merchant's receivables. The first ones to sign this agreement were Itaú Unibanco and Redecard, in July 2018. A couple of months later, in September 2018, Banco do Brasil, Bradesco and Cielo also signed an agreement with emphasis on the same anti-competitive practices. In summary, these agreements focused not only on the merchant's receivables, but also on other practices as mentioned in the previous section: tie-in sales, retaliation and incentive practices. In these agreements, the

incumbent card issuers and acquirers - Itaú Unibanco, Banco do Brasil, Bradesco, Rede and Cielo – committed themselves to read the past payment history of their competitors, as well as to keep it available to them. They also compromised not to block the merchant’s receivables without legitimate reason, only doing this in cases when a merchant officially contracted this credit line with them.

32. Furthermore, in regard to the other anti-competitive practices, the signatories agreed: (i) to charge the same fee to competitors when blocking the merchant’s past payment history as a guarantee to new credit operations, (ii) not to take revenge on merchants if they decide to contract services with competitors, (iii) not to offer tie-in sales, (iv) not to automatically renew contracts with their clients and, finally, (v) to limit their fines if merchants do not achieve their sale goals. Signatories also had to pay an indemnity for harming competition. The amount paid by Itaú Unibanco and Rede was R\$ 21 millions. On the other hand, the amount paid by Banco do Brasil and Bradesco was, respectively, R\$ 1.9 million and R\$ 2.2 millions. In turn, Cielo paid R\$ 29.7 millions.

33. At last, regarding discrimination practices in terms of payment terminal machines, CADE celebrated a total of 2 Cease and Desist Agreements. In April 2017, Redecard signed the first agreement and, in July 2017, Cielo was the one to sign it. In these agreements, the signatories committed themselves to insert their competitors’ key access in the PIN Pad machines, allowing merchants to have only one payment terminal to handle transactions with a wide variety of card brands. Signatories would only include their competitors’ key access to their PIN Pad machines if their competitors did the same.

34. In this perspective, along with Brazilian Central Bank’s regulations, the Cease and Desist Agreements mentioned above aimed to improve competition in the Brazilian payment card industry. Therefore, the next section is going to analyze the evolution of this industry in recent years, in order to provide insights on its competitive dynamics.

5. Financial Innovation in Payments and the Role of Competition Advocacy⁹

35. The global digital-payments market is growing exponentially in the last 10 years, creating opportunities to Financial Technology companies – Fintechs – to challenge the incumbents on the financial services industries and foster digital disruption. There are a host of opportunities opening through 2019 as regulators are poised to design specific policies to promote innovation in financial services. These policies are key to Brazil’s government strategy to correct distortions in the credit market, to decrease credit spreads and to increase supply of credit to businesses and consumers.

36. The Brazilian government sets goals to increase competition among financial services providers by curbing anti-competitive practices of incumbent banks, by acting to review and remove regulations that may damper innovations and create entry barriers to new firms, and by working to give consumers and companies control over their own financial data¹⁰. These policies create opportunities for Fintechs to offer new and better services to a wider range of potential customers and to take power from traditional banks. As seen before, Brazil already provides a wide range of financial arrangements, in the scope

⁹ This section was written by the staff of the Secretariat for Competition Advocacy and Competitiveness (SEAE) of the Ministry of Economy.

¹⁰ Recently, Brazil approved changes to the national credit scoring database (“*Cadastro Positivo*”), establishing an opt-out mechanism to strengthen the database in terms of total users and quantity of data available per user.

of the Brazilian Payments System (SPB in its acronym in Portuguese) and there is more work being done to comply with international standards. There are opportunities and risks to be evaluated by policymakers and regulators.

37. The Secretariat for Competition Advocacy and Competitiveness (SEAE) of the Ministry of Economy is entitled to promote initiatives both in the private and in the public sectors that may lead to a more competitive environment. In July 2006, the Central Bank of Brazil, the former Secretariat of Economic Law of the Ministry of Justice (SDE), and the former Secretariat for Economic Monitoring of the Ministry of Finance (SEAE) agreed on a technical co-operation memorandum aiming to carry out joint studies related to retail payment systems. In 2010, as a result of this collaboration, a "Report on the Brazilian Payment Card Industry" was published, aiming to identify potential market failures stemming from market's organisation and practices. This report became a reference for future steps in regulation, such as the payment arrangements legislation issued in 2013.

38. In 2017, the Financial Stability Board¹¹, composed by Central Bank Chairpersons of G20 countries, listed several issues related to financial innovation that deserve authorities' attention. All of them have direct or indirect impact on financial competition and pose challenges to countries and financial regulators around the world. In this context, Brazil also has some peculiarities listed in the IMF report "Brazil – Financial System Stability Assessment"¹²:

- despite the big recession of the past 5 years, the banking sector remains resilient due to a strong regulatory framework and high interest margins and fees;
- the corporate and households sectors are vulnerable and, despite the sharp decrease in the country's base interest rate (SELIC), the leverage, liquidity and profitability of the corporate sector are still very depressed and the household's debt-service-to-income ratio (DSTI) is still one of the highest in the world;
- public institutions account for half of the total credit supply;
- financial intermediation costs are high in Brazil, compared to income group peers;
- the high credit-product concentration, high share of earmarked credit and concentration in the banking sector are all correlated with higher interest rate spreads;
- Brazil has structural deficiencies, such as poor collateral enforcement, low recovery ratios and inefficient judicial system, that contribute to high delinquency costs;
- Brazil's retail payments foundation is solid and the regulators have significantly strengthened the legal and regulatory framework that governs retail payments, particularly regarding the role of non-banks;
- Brazil's card market is the second largest in the world, but it is characterised by vertical integration and concentration.

¹¹ Financial Stability Board. (2017). Financial Stability implication from FinTech: Supervisory and Regulatory Issues That Merit Authorities' Attention. Available at <http://www.fsb.org/wp-content/uploads/R270617.pdf>, accessed on April 24, 2019.

¹² IMF (2018). Brazil – Financial System Stability Assessment. Available at <https://www.imf.org/~media/Files/Publications/CR/2018/cr18339.ashx>, accessed on April 24, 2019.

39. Against this background, SEAE is working continuously to address issues that affect the regulation and competitiveness of the financial services industry. Although the competition law does not give SEAE enforcement tools, the Secretariat has the prerogative to engage regulators if it is convinced that there are competition problems in certain sectors. In this case, SEAE can actuate upon CADE, the sectoral regulator or other enforcers like the Federal Prosecution Service.

40. As part of the new agenda, SEAE identified the following issues as priority for the competition advocacy efforts regarding the financial sector. The Secretariat is producing technical notes that seek to provide subsidies to the Central Bank, CADE and other government bodies regarding the need to adopt a mix of measures that reestablish a competitive environment in financial sector.

Market Segment	Problem	SEAE's action
ATM Machines	Due to the high concentration in the Brazilian banking sector, the 5 big banks have control over the ATM machines, setting prohibitive fees for new players – smaller banks, digital banks, Fintechs – to provide ATM services to their clients.	Considering the market foreclosure practices, SEAE is working to access the economic rationality of the fees in order to notify the regulator and/or the antitrust agency if necessary.
Clearing Payments	Central Bank of Brazil allows the Interbank Payment Chamber (CIP), created in 2001 and controlled by the big traditional banks, to provide infrastructure to financial market movements. However, CIP governance practices are not in line with the interests of the whole financial services industry, as the controllers act to maintain market power. There are issues related to fees charged to clear payments through the chamber and lack of transparency regarding costs and the clearing process.	It is a known problem in the literature that sometimes self-regulating bodies governed by the incumbents can raise the entry barriers to new entrants. SEAE is assessing in what extent the CIP's rules establish obstacles to new entrants. Moreover, some market participants called SEAE's attention to the lack of transparency about the rules.
Access to some government and third part services	Digital banks and Fintechs don't have access to systems that connect clients to federal and local Tax Offices, which limits its use for clients. The same problem occurs with utility providers.	SEAE is evaluating with other government agencies the cause of such limitations and possible solutions, at least at the federal level.

41. As a Brazilian competition advocacy body, SEAE's efforts, conjugated with CADE, are the main drivers of competition awareness in the country. Under the scope of the Brazilian Competition Defense System (SBDC in its acronym in Portuguese), they will join efforts with the executive, legislative and regulatory branches of Brazilian government, to foster innovation and competition in the financial services industry in order to promote financial inclusion of companies and individuals, to decrease credit spreads and to increase credit supply.

6. Conclusion

42. As seen above, the Brazilian payment card industry has many particularities that make this market challenging to the antitrust authority. Not only does this industry work as a multi-sided platform, but it also has a highly vertically integrated structure and raises concerns about its concentration ratio. However, as soon as CADE and the Brazilian

Central Bank started to intervene in this market, barriers to entry decreased and enabled the emergence of new entrants, resulting in competitive pressure to incumbent players. This is especially true for the acquirer side, since, up to 2009, this market was characterised by a duopoly between Rede (former Redecard) and Cielo (former Visanet).

43. The referred competitive pressure also provided an environment favorable to innovation, since conglomerates began to lose market share with consumers having more options at their disposal. The innovation, in turn, not only enabled cost reduction, but also improved efficiency in this industry. As an example, the digitalization of financial services has made mobile banking the preferred channel for financial services in Brazil. According to data from the Brazilian Federation of Banks (FEBRABAN), these digital channels account for more than 50% of all transactions in the country¹³. In this context, traditional services provided by incumbent banks proved to be much more expensive than digital options. Also, the dissatisfaction of consumers with these services was another trigger to promote financial disruption.

44. Moreover, this new environment was especially positive to the payment and the loan markets, since FinTechs have found opportunities to grow in Brazil. Nowadays, these companies are becoming more and more appealing to consumers who look for transparency and customized services. Some FinTechs that got spotlight recently are Nubank, Next, Original, GuiaBolso, Stone, Inter, PagSeguro and BeeTech. However, even in face of these improvements, many problems remain to be addressed in the payment card industry.

45. Among other issues, this market continues to show a high concentration ratio associated with vertically integrated players. This combination still benefits incumbent companies, since they have more resources to invest in innovation and advertising. Additionally, as technological progress takes place, tools for analyzing these markets are becoming outdated. Thus, when investigating them, it is important to take into account their particularities in order to fully understand their functioning and their competitive dynamics. For this reason, one can say that, along with the Brazilian Central Bank's regulation, the Cease and Desist Agreements established by CADE and SEAE's advocacy role in this market were only the first steps to improve competition in the payment card industry. The evolution of anti-competitive practices in this sector has shown that interventions – through regulation, antitrust enforcement and competition advocacy – need to be continuously adapted to successfully protect competition.

¹³ <https://medium.com/marventures/financial-services-in-brazil-are-primed-for-disruption-heres-why-69b7d11322a0>