

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

**Digital Disruption in Financial Markets – Note by Peru**

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More documents related to this discussion can be found at

<http://www.oecd.org/daf/competition/digital-disruption-in-financial-markets.htm>

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## Peru

### 1. The development of Fintech in Peru

1. The Peruvian market presents a limited digital presence, mainly due to deficiencies in accessibility and infrastructure, placing itself among the three countries with the least digitisation in Latin America, as shown by the Digitisation Index "DiGiX" prepared by BBVA Research for 2018<sup>1</sup>. This is a difficulty for the development of Fintech ecosystem in Peru, because many of these enterprises are born as start-ups and depend on its level of scaling to sustain themselves in the market.

2. The Fintech Peruvian market is still young and it is in an early stage of development, due to this, the start-ups do not participate in all segments in which Fintech companies have developed globally<sup>2</sup>, including: planning financial, trading and investment, cybersecurity, operations, and communications. According to the Fintech Peru Association, the segments in which the Fintech companies are currently constituted are the following:

**Table 1.**

Fintech Segments	Number of companies	Part. in Fintech ecosystem
Payments and remittances	24	27.2 %
Lending	21	23.5 %
Currency exchange	20	22.2 %
Business finance management	5	6.2 %
Personal finance management	5	6.2 %
Marketplaces for financial services	4	4.9 %
Insurance	3	3.7 %
Crowdfunding	2	2.5 %
Capital Markets	2	2.5 %
Cryptocurrencies	1	1.2 %
	<b>87</b>	<b>100 %</b>

*Note:* Elaborated by Technical Secretariat of the Competition Division of the Tribunal of INDECOPI

*Source:* Fintech Peru Association

3. Despite the difficulties that the Peruvian market structure represents, the creation of new companies in Peru has maintained a sustained growth, particularly in the payments segment, considering that average growth rate calculated for Latin America is 8%<sup>3</sup>. This

<sup>1</sup> BBVA Research (2018). "DiGiX 2018: A Multidimensional Index of Digitization". Available in: <https://www.bbvarsearch.com/en/publicaciones/digix-2018-a-multidimensional-index-of-digitization/>

<sup>2</sup> Classification obtained from OECD. OECD (2018), "Financial Markets, Insurance and Private Pensions: Digitalisation and Finance". Available in: <https://www.oecd.org/finance/private-pensions/Financial-markets-insurance-pensions-digitalisation-and-finance.pdf>

<sup>3</sup> McKinsey & Co. (2018). "Global payments: Expansive growth, targeted opportunities". Available in: <http://www.mckinsey.com/industries/financial-services/our-insights/global-payments-expansive-growth-targeted-opportunities?cid=eml-web>

growth has placed Peru as the 6th country in Latin America in terms of growth and representativeness of the Fintech industry<sup>4</sup>.

4. This recent development has not gone unnoticed by the traditional banking and other financial services companies already established in the Peruvian market (incumbents), who showed an initial refusal to work together<sup>5</sup>, however, this has changed and currently the main banks in Peru have strategic alliances<sup>6</sup> with some Fintech companies.

5. Finally, unlike what happened in other countries<sup>7</sup>, in Peru our agency has not received complaints on competition ground related to digital disruption in financial markets.

## 2. Benefits to consumers

6. In Peru, access to the financial system is low due to factors such as the high level of informality in business<sup>8</sup>; excessive use of cash and insufficient financial deepening<sup>9</sup>; limited access to telecommunications; among other factors.

<sup>4</sup> Inter-American Development Bank, et. al. (2018). "Fintech: Latin America 2018: Growth and Consolidation". Available in: <https://publications.iadb.org/en/Fintech-latin-america-2018-growth-and-consolidation>

<sup>5</sup> This information was obtained from an interview with CEO of "Banco de Credito del Peru", the bank with the largest market share in Peru, who said "we used to see ourselves as enemies, but we are complementary. They seek to solve specific cases, and when they solve them, they go for the next one. But they don't have something that we do: customers. And getting them is very expensive in money, effort and time. They look for 'pain points' and solve them, we give them clients. The smart is work together. We are working with two Fintech who are improving our risk model." Complete interview available in SEMANAeconómica.com. (2019-1): <http://semanaeconomica.com/article/mercados-y-finanzas/banca-y-finanzas/328716-ceo-del-bcp-el-que-no-invierta-en-digitalizacion-va-a-morir/> (Website visited April 26, 2019).

<sup>6</sup> E.g., in an interview with the CEO of the "BBVA Continental" bank, he was asked about his bank's relationship with Fintech and noted that "BBVA Group has a fund of 200 million euros (€) and participation in more than 25 international Fintech. BBVA Continental works with five, a couple are from outside, and we are developing products together. The digital ecosystem is developing gradually but the potential is much greater. We will continue to work with them and improve internal processes and demands to take advantage of their capacity for innovation". Complete interview available in SEMANAeconómica.com. (2019-2): <http://semanaeconomica.com/article/mercados-y-finanzas/banca-y-finanzas/329091-ceo-del-bbva-continental-digitalizaremos-a-un-millon-de-clientes-tranquilamente-en-el-2019/> (Website visited April 26, 2019).

<sup>7</sup> E.g., the Tribunal for the Defense of Free Competition in Chile ruled on the problems reported by Fintech companies of cryptocurrencies due to closure of their bank accounts. Information extracted from: <https://news.bitcoin.com/supreme-court-chiles-antitrust-court-banks-crypto-exchange-accounts/> (Website visited April 26, 2019).

<sup>8</sup> INEI (2017): By 2016, informality represented 18% of the GDP of the economy in Peru. Available in: [https://www.inei.gob.pe/media/MenuRecursivo/publicaciones\\_digitales/Est/Lib1471/libro.pdf](https://www.inei.gob.pe/media/MenuRecursivo/publicaciones_digitales/Est/Lib1471/libro.pdf) (Website visited April 12, 2019).

<sup>9</sup> The Banks Association of Peru (ASBANC, in Spanish), points out that "although the use of cash has been decreasing little by little in most countries, it remains high because the degree of financial deepening is still reduced for geographical reasons, by income levels, etc., in addition to this, the use of Cash is a pattern that is still strongly rooted in the behavior of economic agents" (p.5). Available in: <https://www.asbanc.com.pe/prensa/Reduccion-del-uso-del-dinero-en-efectivo-en-el-Peru.pdf> (Website visited April 12, 2019).

7. To the extent that the aforementioned conditions are corrected and the access to the financial system is promoted, the benefits to consumers will be greater for two aspects: financial integration and greater availability of alternatives. In that sense, the Fintech ecosystem benefit consumers by improving the conditions of competition in the market with increasing the supply of services and financial products. For instance, the Fintech Peru Association showed the following outcomes in November 2018:

**Table 2.**

Fintech Sectors	Number of consumers	Transaction amount
Crowdfunding	More than 4 thousand	17 million PEN
Currency exchange	More than 20 thousand	112 million USD
Financing	More than 1,3 thousand	59 million PEN

*Note:* (1) Elaborated by Technical Secretariat of the Commission for the Defense of Free Competition of INDECOPI. (2) Exchange rate: 1 PEN approximately 0.3 USD.

*Source:* Fintech Peru Association.

8. Table 2 shows that Fintech are still developing and expanding to serve more consumers. Besides, the development and expansion of Fintech are positive for the banking system, since it offers alternatives at low cost, which are potentially achievable for consumers with lower purchasing power<sup>10</sup>. In that sense, Pousttchi and Dehnert (2018) state that due to reduced switching cost among Fintech providers, customer retention also tends to be lower<sup>11</sup>. Crowdfunding allows lenders to automate their lending process by setting their lending criteria (risk, maturity, etc), which lowers their transaction costs and permits diversification<sup>12</sup>.

9. According to Andina (The News Agency of the State), in Peru, small and medium-sized enterprises (PYMEs, by its acronyms in Spanish) account for 99.8% of the total number of companies<sup>13</sup>, that fore, it's important to mention that the access to the traditional financial system has not been able to cover a large part of this sector, Fintech represent an opportunity to increase the access level of small and medium-sized companies that still can't resort to financial solutions into banking. In that sense, although some Fintech business could be considered as a complement<sup>14</sup> to the Peruvian banking system, for the BCRP (2018) there are other Fintech segments could be considered as competitors for the Peruvian banking system, since Fintech provide financial services efficiently and they increase their share in the market very quickly<sup>15</sup>.

<sup>10</sup> BCRP (2017). "El acelerado crecimiento de las Fintech y los desafíos para su regulación", p. 43, Moneda Review.

<sup>11</sup> Information extracted from Alt, Beck and Smits (2018, pp.238-239) about Pousttchi and Dehnert (2018). Available in: <https://link.springer.com/content/pdf/10.1007%2Fs12525-018-0310-9.pdf>

<sup>12</sup> Information extracted from OECD (2018, p.6): "Regulatory framework for the loan-based crowdfunding platforms". Available in: [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP\(2018\)61&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP(2018)61&docLanguage=En)

<sup>13</sup> Data extracted from Andina (The News Agency of the State). (2018). "Pyme emplea al 75% de la Población Económicamente Activa del Perú". Available in: <https://andina.pe/agencia/noticia-pyme-emp-lea-al-75-de-poblacion-economicamente-activa-del-peru-714211.aspx> (Website visited April 12, 2019).

<sup>14</sup> Information extracted from SEMANAeconómica.com. (2019-1).

<sup>15</sup> BCRP (2018). "Las Fintech y los Bancos Centrales", p. 14, Moneda Review.

10. In addition, the market for payment cards has evolved favourably in virtual and physical platforms. The figure of the payment facilitators<sup>16</sup> allows small business to access to efficient alternatives against crime and informality, common ways when cash is used as a payment tool. In Peru, the main facilitators are Culqi<sup>17</sup> and Mercado Pago<sup>18</sup>.

### 3. Legal framework and enforcement

11. Essentially, our legal framework does not contain any particular rule for financial activities of tech companies, so their products and services in the market are subject to same rules of prudential regulation, competition law and consumer protection than incumbents<sup>19</sup>. However, we consider the regulation for Fintech in Peru, as part of the banking sector, is still under development.

12. Currently, there is a bill for Fintech crowdfunding segment in which participate the Superintendency of Banking, Insurance and PFA (SBS, by its acronym in Spanish), the Superintendence of the Stock Market (SMV, in Spanish) and the Central Reserve Bank of Peru (BCRP, in Spanish); it is expected that SMV will be the institution in charge of the regulation and supervision of this segment of Fintech<sup>20</sup>.

13. The national banking regulator in Peru -SBS-, considers that a generalisation of regulation is not required for all segments of Fintech, but this regulation should be selective, considering the level of maturity of each Fintech and the degree of the impact in the public interest. To the extent that the regulation foresees the risks associated to Fintech activities, for example fraud, money laundering and cybersecurity, the development of Fintech will be ensured<sup>21</sup>.

14. About cybersecurity, the SBS is considering several options for regulating Fintech. In fact, the SBS has formed a permanent working group named Committee of Supervision

<sup>16</sup> The figure of payment facilitators corresponds to "organizations that engage merchants to provide digital payment acceptance accounts—payment cards, online payments, alternative payments, etc.—under a single acquirer agreement". Definition taken from First Data (p.2, 2017). Available in: [https://www.firstdata.com/downloads/pdf/en\\_gb/First-Data-Global-PFAC-Position-Paper.pdf](https://www.firstdata.com/downloads/pdf/en_gb/First-Data-Global-PFAC-Position-Paper.pdf) (Website visited April 26, 2019).

<sup>17</sup> More information available in Culqi's webpage: <https://culqi.com/nosotros.html>.

<sup>18</sup> Information extracted from PerúRetail (2018). "Mercado Pago: "Buscamos revolucionar el mercado promoviendo la democratización de los pagos digitales"". Available in: <https://www.peru-retail.com/mercado-pago-buscamos-revolucionar-mercado-promoviendo-democratizacion-pagos-digitales/> (Website visited April 26, 2019)

<sup>19</sup> It should be specified that, if Fintech companies are not registered within the categories of Peruvian banking law, they can't receive funds from the public, must limit the interest rate charged on their loans to that established by Peruvian central bank and their transactions must charge general sale tax. In Peru, the financial services companies (those regulated by the SBS) have no limits on the interest rates they charge on their loans and their transactions are not subject to general sale tax.

<sup>20</sup> SBS (2018). "Boletín Semanal". Available in: [http://www.sbs.gob.pe/Portals/0/jer/BOLETIN-SEMANAL/2018/B\\_S\\_35-2018.pdf](http://www.sbs.gob.pe/Portals/0/jer/BOLETIN-SEMANAL/2018/B_S_35-2018.pdf) (Website visited April 12, 2019).

<sup>21</sup> Ibid

Policies<sup>22</sup> in 2017. This working group considers the possible application of new information technologies in regulation and supervision (regtech and suptech<sup>23</sup>).

15. Regarding the development of the market in the financial sector, given it is limited, no conflicts have arisen between Fintech and Bigtech. In Peru, one of the most representative Bigtechs is Facebook. Currently, Facebook is conducting pilot programmes in Peru to transfer money through its platform<sup>24</sup>.

16. Other important factor is the perception of Fintech ecosystem in Peru about regulation, the document elaborated by Inter-American Development Bank, et. al. (2018) states that, of the total companies, 55% consider that there is no regulation and 42% think that it should exist<sup>25</sup>.

**Table 3.**

Perception of regulation	Percentage in Peru (%)	Percentage in Latin American (%)
Excessive	13	14
Adequate or not necessary	26	35
Lax	6	8
Does not exist and is not required	13	9
Does not exist and is required	42	35

*Note:* Elaborated by Technical Secretariat of the Commission for the Defense of Free Competition of INDECOPI.

*Source:* Inter-American Development Bank, et. al. (2018).

17. Specifically, 53% of crowdfunding believe that there is no specific regulation and is required in Peru<sup>26</sup>.

18. Finally, while we consider that Peruvian legal framework is being developed, there has been no discussion about the change of focus of financial regulation and to remove rules based on the "agent" and consider the "risks" of the service, establishing measures according to the risk that each activity entails. This approach could be facilitate the advent of digital services in our financial market like another countries where changed their regulatory policy modelling<sup>27</sup>.

<sup>22</sup> SBS (2018). "Fintech y consideraciones para su regulación". Available in: [http://www.sbs.gob.pe/Portals/0/jer/SUPERVISION\\_OPI/LimaFintechForum\\_SBS\\_Mayo\\_2018.pdf](http://www.sbs.gob.pe/Portals/0/jer/SUPERVISION_OPI/LimaFintechForum_SBS_Mayo_2018.pdf) (Website visited April 12, 2019).

<sup>23</sup> SBS (2018). "Boletín Semanal". Available in: [http://www.sbs.gob.pe/Portals/0/jer/BOLETIN-SEMANAL/2018/B\\_S\\_35-2018.pdf](http://www.sbs.gob.pe/Portals/0/jer/BOLETIN-SEMANAL/2018/B_S_35-2018.pdf) (Website visited April 12, 2019).

<sup>24</sup> Information extracted from Bim (2019). "Abre tu Bim por Messenger". Available in: <https://mibim.pe/como-tu-abrir-bim-por-messenger/> (Website visited April 12, 2019).

<sup>25</sup> Information extracted from Inter-American Development Bank, et. al. (2018).

<sup>26</sup> Ibid.

<sup>27</sup> EY Global Financial Services Institute (2015). "Financial regulation of Fintech" from: "The Journal of Financial Perspectives: Fintech". Available in: [https://www.ey.com/Publication/vwLUAssets/ey-financial-regulation-of-Fintech/\\$FILE/ey-financial-regulation-of-Fintech.pdf](https://www.ey.com/Publication/vwLUAssets/ey-financial-regulation-of-Fintech/$FILE/ey-financial-regulation-of-Fintech.pdf)

#### 4. Activities of the Competition Authority

19. In Peru, before a regulatory proposal promoted in the Republic Congress whose impact reaches the actions carried out by the competition authority, INDECOPI could issue a report analysing what would be the effect in the market of the approval of that regulation. However, so far we have not received any proposal aimed at improving or protecting the stability of banks, insurance companies or other financial institutions<sup>28</sup>.

20. While the Republic Congress begin the discussion on the advantages and risks of changing the financial regulation approach, our agency has chosen to concentrate its activity on advocacies and market studies that allow reaching specific conclusions about the competition policy of the Peruvian financial market. E.g., we have initiated the market study of payment card systems, due to their importance in our national financial market.

21. This is a market study to analyse the competition conditions existing in payment card systems<sup>29</sup> (e.g., credit and debit cards, Fintech<sup>30</sup> such as aggregators or payment gateways). The hypothesis considered is the possession and use of payment cards by consumers, even reduced, where only 9% of the population uses a credit or debit card can be explained by the structure of the market that affects the contracting of services demanded by businesses.

22. Finally, this study sets forth the activities of the payment system of four parts in Peru, with acquiring companies<sup>31</sup>, issuing banks, merchant and cardholders. Also, this system classified the market in two sides: merchant and acquiring; and on the other hand, cardholders and issuing banks. The limited development and penetration of payment systems contrasts with the high concentration of the markets that make up the payment systems and the vertical relationships between them<sup>32</sup>.

<sup>28</sup> It should be considered that a draft law proposing declaring the regulation of Fintech companies of national interest was presented at the Congress of the Republic. The practical effect of this declaration would be the prioritisation of proposals aimed at establishing rules to facilitate the creation and development of Fintech companies in Peruvian market. The full text of the law proposal is available here: [http://www.leyes.congreso.gob.pe/Documentos/2016\\_2021/Proyectos\\_de\\_Ley\\_y\\_de\\_Resoluciones\\_Legislativas/PL0340320180918.pdf](http://www.leyes.congreso.gob.pe/Documentos/2016_2021/Proyectos_de_Ley_y_de_Resoluciones_Legislativas/PL0340320180918.pdf)

<sup>29</sup> The press release with the summary of the market study on the payment card system is available in: [https://www.indecopi.gob.pe/en/inicio/-/asset\\_publisher/ZxXrtRdgbv1r/content/el-indecopi-inicia-estudio-de-mercado-sobre-los-sistemas-de-tarjetas-de-pago-en-el-peru-que-analizara-condiciones-de-competencia?inheritRedirect=false](https://www.indecopi.gob.pe/en/inicio/-/asset_publisher/ZxXrtRdgbv1r/content/el-indecopi-inicia-estudio-de-mercado-sobre-los-sistemas-de-tarjetas-de-pago-en-el-peru-que-analizara-condiciones-de-competencia?inheritRedirect=false). In addition, the full report on the launch of that study is available in INDECOPI (2018): <https://www.indecopi.gob.pe/documents/51771/2610439/Sistemas+de+tarjetas+de+pago/>

<sup>30</sup> OECD (2018) has acknowledged the role of Fintech within payment services (e.g. innovative payments applications and crowdfunding). “Although digital payments began with physical instruments (e.g. credit cards), payments have been moving more and more into the virtual domain. These innovative payment services can broadly be classified into online payments and mobile payments” (pp.14-15).

<sup>31</sup> Information extracted from INDECOPI (2018): In Peru there are four acquiring companies, which are in the model of Brand Aligned Acquiring Consolidation, that is, each acquiring entity works with only one card network. At present, VisaNet (which validate and confirms operations of Visa brand or card network); Procesos Medios de Pago S.A. (PMP) of the card network MasterCard; Expressnet of Amex y; Banco Financiero de Diners. Regarding payment processors, in Peru there are two: VisaNet process the card network Visa while PMP process operations of MasterCard, Amex and Diners.

<sup>32</sup> Information extracted from INDECOPI (2018).