

July 28, 2004

SECTION: Pg. 14

LENGTH: 1573 words

HEADLINE: Brazil revamps payments infrastructure

**BODY:**

Electronic payment usage has soared in Brazil in recent years, driven by a surge in card usage and the collapse in cheque payments. The debit card has made a breakthrough into the mainstream, focusing attention on the cards infrastructure and the changes needed to maximise the payment industry's investments in Brazil's vast ATM and EFTPOS terminal networks. Tony O'Brien reports

Cheques have traditionally dominated cashless payments in Brazil but cheque usage has fallen significantly in recent years. Cheques accounted for 40.7 percent of cashless payments in 2003, according to the Banco Central do Brasil, down from 45.9 percent in 2002 and about 63 percent in 1999. Cheques only accounted for 22.1 percent of cashless payments transaction values in 2003, down from 42.4 percent in 1999.

The new Brazilian Payment System, which was launched in April 2003, has accelerated its decline, as have the emergence of convenient consumer credit facilities such as bank and store credit cards and CDC - an online consumer credit product offering instalment payment options at the point of sale - which have eroded demand for post-dated cheques as credit instruments.

Direct debits almost doubled their share of payments between 1999 and 2003. Some 11.3 percent of payments were made with direct debits, compared with 16.4 percent made by credit transfer or giro bill payment. The number of utility bills settled by direct debits from customer accounts rose by 15.3 percent between 2000 and 2003 to almost 260.2 million, while the number of tax and state contribution payments, including payments by direct debit, rose by 43.3 percent over the same period to 590.2 million.

Payment cards, and debit cards in particular, have enjoyed the most impressive growth, accounting for 31.6 percent of cashless payments in 2003, up from 15.9 percent in 1999. Debit cards volume jumped 56 percent on 2002 to R\$26.6 billion (US\$8.8 billion), while the number of transactions rose by 30 percent to over 600 million, according to the Brazilian Association of Credit Card Companies and Services (ABECS).

The credit card market has also grown strongly in recent years. By the end of March there were 48 million credit cards in issue, up from 43 million a year earlier. Credit card usage

soared during 2003 and early 2004. The number of card transactions in the first quarter jumped by 17.6 percent to 340.27 million according to ABECS, while the cards volume rose by 16.5 percent to R\$22.6 billion.

As card usage grows attention is shifting to the cards infrastructure needed to support its continued development. The Banco Central do Brasil Financial Stability Report in May 2004 found that while Brazil's ATM infrastructure fares well in comparison with that of many developed economies and payments systems (such as those in France or Belgium), its EFTPOS system lags far behind. It concluded that interoperability in the ATM and EFTPOS terminals systems was essential to the modernisation of Brazil's payments system, a view echoed, in part, by the banking industry.

ATM usage, in terms of transactions per capita and transactions per terminals, was on a par with or better than usage in Belgium, France, Germany or Switzerland in 2002. Brazil's bankers are concerned, however, that the vast ATM system - there were some 130,000 self-service terminals, including multi-functional ATMs, cash dispensers, deposit terminals and cheque dispensers, installed by the end of 2003 - could be made more efficient by opening up access and acceptance.

At the recent CIAB 2004, the 14th annual conference and exhibition of IT for banks in Latin America, the Federation of Brazilian Banks (Febraban) proposed that Brazilian banks establish a common ATM network in order to maximise the banks' massive investments in the ATM fleets. A common ATM network would help banks by reducing the need for nationwide proprietary networks, and it is hoped, slashing the cost of building, maintaining and servicing a network that customers can access nationwide.

According to the Banco Central do Brasil, most of the ATMs in Brazil are part of proprietary bank-owned networks that are not linked to others banks' networks. Only about 38 percent of ATMs installed by the end of 2002 were linked.

ATMs form a crucial part of the leading banks' channel strategy. Banco do Brasil's 37,018 ATMs at the end of last year accounted for over half of all banking transactions. Over 1.5 billion transactions were carried out on Bradesco's 21,065 ATMs in 2003, while Banco Ita#'s 19,770 ATMs accounted for almost 1,033 million transactions during the year.

The EFT network operator Tecnologia Bancaria (Tecban), which is owned by a consortium of Brazilian banks, said in April that it would invest R\$20 million in adding 650 new ATMs to its Banco24Horas ATM network, taking the total to about 2,600.

Tecban also operates a proprietary EFTPOS network, Cheque Eletronico.

The situation in the EFTPOS system is very different. Rather than having a large number of banks with unlinked, proprietary networks, there are four major EFTPOS terminal operators and merchant acquirers. Apart from Tecban and American Express, which acquires transactions with its own cards in Brazil, and ignoring Unibanco's multi-

merchant private-label Hipercard network, the two key merchant acquirers are Redecard and Visanet do Brasil.

Redecard, a member of the Credicard group, acquires and installs terminals to accept cards bearing MasterCard credit and debit card marques and Diners Club cards. The company acquired card volumes worth about R\$43.5 billion in 2003, with about 740,000 merchant locations. Thanks to its acquisition by MasterCard, Redecard's RedeShop debit cards portfolio is being migrated to Maestro.

Visanet do Brasil handled some 1 billion Visa-branded credit and debit card transactions in 2003, worth about R\$55 billion, with about 0.8 million merchant locations.

The Banco Central do Brasil's report suggests that while the EFTPOS terminal network grew substantially in 2002, it was still much smaller than its international counterparts. The number of terminals accepting debit cards grew to 595,152 by the end of 2002, according to the Banco Central do Brasil, an increase of one-third over the previous year. However, the number of terminals per million inhabitants was still only 3,408, compared with 15,620 in France or 13,691 in the UK. Debit card payments at EFTPOS terminals soared by 38 percent in 2003 to 451.3 million but there were still only three transactions per inhabitant, compared with 52 in the UK or 10 in Italy, where debit card usage has developed relatively recently.

The Banco Central do Brasil concludes that interoperable ATM and EFTPOS networks could increase banking industry profits, while reducing merchant and consumer costs and providing consumers and merchants with more and better payment options.

This could in turn result in wider card acceptance, a larger active cardholder base and more card usage, as well as a more efficient, reliable and secure payment system.

It acknowledges however that there are significant barriers to interoperability in the models adopted by industry participants in the creation and expansion of the networks.

Beyond developing the payments infrastructure for existing bank customers, the Brazilian banking industry is also addressing the needs of the large numbers of unbanked customers in Brazil. A number of major banks such as Banco do Brasil and Bradesco have stepped up efforts to provide poorer Brazilians with access to microcredit.

Brazil has an economically active population of about 86.6 million, of which 46.8 million work in the informal economy. An estimated 13 million of that total did not have a current account with a bank, according to Banco do Brasil's 2003 annual report.

Bradesco has partnered with the Brazilian Postal and Telegraph Company (Correios) to create Banco Postal to provide basic banking products and services to Brazilians throughout the country, including the remote interior regions.

Banco Postal has grown rapidly since the first post-office bank branch was opened in

March 2002. There were 4,000 branches by the end of last year. In its first quarter report, Bradesco said that Banco Postal was present in all Brazilian states, with operations in 1,240 towns and villages with no previous bank access, with a population of over 11.5 million.

More than 1.5 million people with no previous access to the financial system were Banco Postal customers by March, of which 85 percent were savings account holders with an average balance of R\$137.00. More than 20 percent of Banco Postal's customers have been granted credit, with about 108,000 contracts for microcredit to low-income families worth more than R\$49 million, averaging R\$594.31 each.

All post-office bank customers have debit cards and more than 15 percent also use cheque books. The number of Banco Postal transactions has also risen rapidly, with over 12.9 million transactions in March 2004, up from 8.1 million in September 2003 and about 4 million in March 2003.

The new wave of previously unbanked customers joining the ranks of Brazil's millions of cardholders emphasises the need for a widespread but efficient cards infrastructure, one that will interoperability in the ATM and EFTPOS networks would help to produce.