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FEATURED Q&A

How Competitive Is the Payments Sector in Brazil?



Brazil's antitrust regulator, Cade, has been scrutinizing the country's payments sector. // File Photo: pxfuel.com.

Q **Brazilian antitrust watchdog group Cade on June 30 reversed its previous decision to suspend the payments service of Facebook's WhatsApp messaging app. However, the payments service remains suspended because Brazil's central bank previously halted it in another order. In a separate action last November, Cade rejected Itaú Unibanco's appeal in a case involving its payments processor, Rede, over alleged anticompetitive practices. How healthy is competition in Brazil's payments sector, and is the country taking the right actions to foster competition? How well does Brazil's payments system function in areas including reliability, security and cost to consumers?**

A **Lindsay Lehr, director of the payments practice at Americas Market Intelligence in San Francisco:** "The halting of Facebook Pay by the Brazilian central bank and Cade is an unfortunate demonstration of unhealthy regulation that is holding back innovation. Brazil's powerful banks have not wanted to realize that front-end user experience and interoperability is not their strength and instead are squelching competitors who can offer this at scale. This is unfortunate, since Facebook Pay operates over card rails (benefiting banks) and has the potential to convert billions of dollars in cash payments to electronic format, as well as bring millions of merchants into an online selling environment. The regulators and leading banks undoubtedly pressuring them are not thinking long term but instead are looking out for their short-term interests. Compounding this is the fact that Covid-19 is putting immense pressure on banks, so integration with Facebook Pay

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Banks Accuse Argentina's Vicentin of Diverting Millions

Banks to which cash-strapped Argentine soy export giant Vicentin owes money asked a judge in New York to subpoena records of the banks' money transfers.

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Rapyd Launches Payment Service in Mexico

Fintech company Rapyd said it has launched a "full-stack" integrated local-payment service in Mexico. Rapyd is launching the service in cooperation with several Mexican payment providers.

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BANKING

Itaú Corpbanca Unlikely to Post Profit This Year

After taking an impairment charge of \$930 million, Chile-based Itaú Corpbanca is unlikely to post a profit or pay dividends this year, said the bank's chief executive officer, Gabriel Moura.

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Moura // File Photo: Itaú Corpbanca.

BANKING NEWS

Itaú Corpbanca Unlikely to Post a Profit for 2020: CEO

Chile-based Itaú Corpbanca is unlikely to post a profit or pay dividends this year after taking an impairment charge of \$930 million, the bank's chief executive officer, Gabriel Moura, said July 10. The Chilean unit of Brazil's largest lender, Itaú Unibanco, said the charge reflected the new fair value of cash generation for the bank's Chile and Colombia units, adding that the charge was "primarily the result of economic

“We saw the current moment, with the crisis caused by the coronavirus pandemic, as an opportunity to adjust Corpbanca's balance sheet.”

— Milton Maluhy

conditions as of June 30, 2020.” The losses that Itaú Corpbanca reported were mainly in goodwill from earlier acquisitions in the two countries and will not affect cash and capital, Reuters reported. In a conference call with analysts, Moura said Corpbanca will likely post lower loan book and fee growth than expected in coming quarters because of the Covid-19 pandemic. Itaú Corpbanca was created by Itaú Chile's merger with Chile's Corpbanca in 2016, and the combined bank has units in Chile, Colombia, Peru and Panama. The integration process that followed the acquisition took longer than expected, and Itaú Corpbanca also faced loan losses, weak profit levels and violent protests in Chile. The impact of the impairment charge will have little effect on Itaú Unibanco, said the Brazilian bank's chief financial officer, Milton Maluhy. Itaú Unibanco has a stake of 38.1 percent in the Chilean lender. “We saw the current moment, with the crisis caused by the coronavirus pandemic, as an opportunity to

adjust Corpbanca's balance sheet,” Maluhy told Reuters. At the end of March, Itaú Corpbanca had \$45 billion in assets and 321 branches.

Banks Accuse Argentina's Vicentin of Diverting Millions

Banks to which cash-strapped Argentine soy export giant Vicentin owes money have asked a judge in New York to subpoena more documents from the company, the Buenos Aires Times reported July 5. Lenders including Rabobank, Credit Agricole, ING and the International Finance Corp., the World Bank's private lending arm, are seeking copies of wire transfer records by Vicentin and several associated companies including a vineyard and a meatpacker, the newspaper reported. The banks, which are collectively owed \$500 million, also want access to transaction records by Vicentin executives and those of members of the families who founded the company, according to court records. “Vicentin likely improperly diverted hundreds of millions of dollars,” the court documents alleged, Reuters reported. The case is before the U.S. Federal Court for the Southern District of New York and comes as Argentina's government is examining alternatives to its planned expropriation of Vicentin. An unnamed source close to Vicentin told the wire service that the company “denies the accusations” and has always complied with requests for information. “This will not be the exception,” the source said. The company went bankrupt after an expansion last year that was fueled by credit. The bankruptcy left banks and farmers with bad debts totaling more than a million dollars. In early June, Argentine President Alberto Fernández decreed an “intervention” in the company, which was once the South American nation's top exporter of soy byproducts. Fernández's government was seeking congressional approval for a state takeover of Vicentin, but it was put on hold after the government of Santa Fe province, where the company is headquartered, offered to lead the intervention in the company. In late June, a local judge reinstated Vicentin's

NEWS BRIEFS

Allianz Finalizes Acquisition of Units From SulAmérica

Germany-based insurer Allianz has finalized its acquisition of automobile and property and casualty units from Brazil's SulAmérica, Insurance Journal reported July 13. The deal, in which Allianz is buying the units for 3.2 billion reais (\$595 million), was announced last August. The completion of the transaction makes Allianz Brazil's second-largest auto insurance provider and among the top three property and casualty insurers in the South American country, Allianz said.

Sagicor Life Jamaica Sees Increase in Use of Digital Portals

Sagicor Life Jamaica is seeing an increase in the number of clients using its digital portals amid the coronavirus pandemic, Loop Jamaica reported July 13, citing a top executive. Mark Chisholm, an executive vice president at the insurer, said that the company benefited by having systems in place in order to facilitate a broad transition to digital transactions. Among Sagicor's digital portals is eLife, which allows customers to purchase coupon life insurance, critical illness and investment-type policies without the need for a medical certificate, the news site reported.

Brazil's Itaú Names New Head of Operations for Three Countries

Brazilian banking giant Itaú Unibanco Holding has named Álvaro Pimentel as its new head of operations for Argentina, Paraguay and Uruguay, the bank said July 6, Reuters reported. Pimentel was the chief executive of the Brazil-based lender's Colombia unit. In his new position, he replaces César Blaquier, Itaú Unibanco said in a statement, the wire service reported.

original administrators. The banks that are seeking information about money transfers involving Vicentin said they made the request after an initial request in February led them to seek more information, the Buenos Aires Times reported. The banks say it is difficult to understand how the company went from reporting healthy finances in the middle of last year to collapsing in December, when it defaulted on 99.3 billion pesos (\$1.4 billion) in debt.

FINANCIAL TECHNOLOGY NEWS

Rapyd Launches Integrated Payment Service in Mexico

Financial technology company Rapyd announced July 9 that it has launched a “full-stack” integrated local-payment service in Mexico. In a statement, the fintech company said the new service will allow both local and international companies to access local-payment methods through one application programming interface, or API, contract and reconciliation service. Rapyd is launching the new service in partnership with several Mexican payment providers, including Banregio, RedEfectiva and Cacao Paycard. The service will allow businesses to accept payment methods such as cash, bank transfers and cards through a single connection in Rapyd’s platform. The service will also allow merchants to disburse money through bank transfers and push payments to cards, said Rapyd. “Just as in other countries dealing with the Covid-19 pandemic, Mexican consumers are quickly moving to digital payments or even cash transactions that are used in online payment scenarios,” said Rapyd. Eric Rosenthal, Rapyd’s vice president and managing director for the Americas, said he hopes the launch of the new service will benefit Mexico’s economy. “Mexico is one of Latin America’s high-growth markets. Our full-stack launch will contribute greatly to Mexico’s growing economy by helping local businesses digitize the acceptance of all payment methods in e-commerce marketplaces, digital platforms,

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was likely put on the backburner for some issuers. Nevertheless, the fact that multiple leading banks declined to integrate with the platform suggests that these same banks and regulators want to pressure Facebook to integrate with PIX first, forcibly leveling the playing field. The ones who lose are consumers and merchants who now more than ever need access to easy, real-time, low-cost ways to pay.”

A Bruno Drago, partner at Demarest: “The Brazilian banking and payments system segments have been under the spotlight of the Brazilian antitrust authority, Cade, for years. Several investigations into alleged exclusive dealings involving payment systems and alleged barriers to entry that both established banks and newer fintechs have raised illustrate such concerns. Old jurisdictional disputes between Cade and the central bank were solved last year, and cooperation among the agencies seems to be at a high point. Against this backdrop, the central bank has implemented new regulations that aim to foster competition in the banking sector, which it is closely monitoring ahead of the implementation of the country’s open banking system. Sharing of financial information from established local banks has been a key element of the new regulation, targeting a reduction of barriers to entry and switching costs, without losing the perspective of information data protection. Whenever one of Cade’s concerns, such as banking and payment systems, meets with another of its concerns, such as digital markets and Big Data, Cade is particularly aggressive. The most recent example of action taken by Cade was the first injunction suspending the partnership between Facebook’s WhatsApp and Cielo until further information was provided. Thus, it seems that the central bank and Cade are walking hand in hand with the mission to foster competition in the sector in coming years. Customers in Brazil already seem to be experiencing significant improve-

ments, with new entrants discussing and presenting innovative solutions. The mission of the authorities, therefore, is to make sure such innovative solutions are effectively implemented.”

A lone Amorim economist at the Brazilian Institute of Consumer Defense (IDEC): “There have been many recent initiatives to open the banking sector, such as regulation of fintechs and open banking, as well as the creation of PIX, an instant payment system. However, the market is still very concentrated in all segments of financial products. With five banks accounting for the entire offering of credit and deposits and com-

“**The market is still very concentrated in all segments of financial products.”**

— lone Amorim

plementary vertical operations, conditions present a major challenge for the Brazilian market to obtain a competitive environment. By regulating the payment arrangements system in 2013, which enabled the entry of new fintechs, the central bank established rules to promote greater participation by new institutions in the market. It is a great move to create instruments to boost the market. However, vertical structures are also created that support the concentration and practice of oligopolies or attract companies with a concentrating profile. These practices require greater supervision by the central bank and Cade, which should seek to open and increase competition in the market, promoting cost reductions for consumers. The market should no longer be a storehouse of opportunity for anyone who enters or maintains concentration; it must promote price reduction and increase the offer of products

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gig economy, lending companies, neo-banks and others," he said.

POLITICAL NEWS

Brazil Police Officers Face Charges in Brutality Case

Two military police officers in São Paulo are facing criminal charges after the broadcast of a video showing one of them stepping on the neck of a Black woman and then dragging her on a street, BBC News reported July 14. The incident happened in May, and the recording was made by a person who witnessed it. The video was broadcast last weekend by Fantástico TV. São Paulo Gov. João Doria said he would not tolerate such behavior by police and that both officers involved had been fired. The video has led to widespread anger in Brazil and has evoked the killing of George Floyd, an unarmed Black man who died May 25 in the U.S. city of Minneapolis after a white police officer knelt on his neck for more than eight minutes. Floyd's death has led to protests in the United States and in other countries. [Editor's note: See related [Q&A](#) in the June 18 issue of the daily Latin America Advisor.]

Suriname's Congress Elects Santokhi as Country's President

Suriname elected a new president on July 13, ending Dési Bouterse's four decades in power since the small South American country's independence, The New York Times reported. Congress on July 13 voted for Chan Santokhi, a 61-year-old former police chief and former justice minister, as the country's new president following a landslide victory of the opposition in the May general elections. "Our country is on the brink of financial collapse," Santokhi told the legislative assembly in a televised victory speech, Stabroek News reported. "The

ADVISOR Q&A

How Can Argentina Push Its Economy Out of Recession?

Q Argentina's economy was facing recession for a third year even before the coronavirus pandemic hit, and now some analysts are expecting a record economic contraction. The South American country's industrial output plunged 33 percent in April, and the IMF in June cut its forecast for growth this year, to a contraction of 9.9 percent. How much economic pain will Argentina feel this year and next? What does the country need to get on a stronger footing? What major structural problems exist in the country's economy, and how can they be solved?

A Todd Martinez, director in the sovereigns group at Fitch Ratings: "We project a severe contraction of 10 percent for Argentina's economy in 2020. While this is not much worse than in other countries in the region that entered the crisis on a stronger macroeconomic footing, Argentina's pre-existing issues could make its recovery considerably weaker. The authorities have enacted sizable fiscal and credit stimulus measures to mitigate the economic effects of the lockdown and disruptions in the payment chain. But they have had to rely heavily on central bank financing to do so, having lost market access and large-scale

government we form will pursue a coherent policy to work together toward that one goal: the recovery of Suriname," he added. Santokhi is taking charge at a time when Suriname is deeply divided and on the edge of bankruptcy, while it struggles to contain the spread of the novel coronavirus, which has infected 741 people and killed 18 in a country of half a million people, The New York Times reported. However, Suriname's long-term prospects seem

IMF support. This poses risks of a surge in inflation from already high levels, lower real incomes, exchange rate pressures and tighter capital controls, all of which could restrain the post-pandemic recovery. Prospects for regaining market access are unclear, even if Argentina can successfully restructure its external bonds, after long and contentious negotiations. While these macroeconomic uncertainties represent major growth challenges, microeconomic developments are similarly discouraging. Prospects for development of the Vaca Muerta energy resources—once a bright spot on the economic outlook—have dimmed in the context of lower global energy prices and lack of a concrete energy policy. Noise around a proposed expropriation of soy producer Vicentin has been a discouraging signal for investment, particularly in key foreign-exchange-earning sectors that hold the key to stronger, more sustainable growth in Argentina. And there appears to be little appetite for reforms to alleviate structural growth bottlenecks, such as labor market rigidity and low trade openness."

EDITOR'S NOTE: More commentary on this topic appears in the July 9 issue of the Latin America Advisor.

brighter, thanks to recently discovered oil off its shore. The country plans to begin exploiting the deposits by 2026, according to the report. Bouterse, a strongman who led the military government through the 1980s and then took office democratically in 2010, will remain in office until Aug. 12. Santokhi is to be sworn in on July 16. [Editor's note: See related [Q&A](#) in the June 9 issue of the daily Latin America Advisor.]

NEWS BRIEFS

Bolsonaro Expecting Results of New Covid Test, 'Can't Stand' Isolation

Brazilian President Jair Bolsonaro said July 13 that he was taking another Covid-19 test and was expecting the results July 14, adding that he "can't stand" isolation, Agence France-Presse reported. Bolsonaro has been in quarantine for nearly a week after testing positive. Bolsonaro said he feels "very well" and will resume his regular routine if he tests negative.

OAS Secretary General Calls for Council Meeting on Guyana

Amid ongoing concerns about Guyana's electoral crisis, the secretary general of the Organization of American States, Luis Almagro, has called for a meeting of the body's permanent council, Stabroek News reported July 14. Almagro reportedly wrote to the chair of the permanent council, Fernando Cordero, seeking support "to deal with the situation of the electoral process in Guyana." The country's ruling party has refused to acknowledge defeat after a prolonged vote recount process of the March 2 presidential election.

Argentina's Latest Debt Proposal Is Final Offer: Fernández

Argentine President Alberto Fernández on July 13 again reiterated that his government's latest proposal to international bondholders of \$65 billion in foreign debt is the country's final offer, saying in an interview with local radio station La Patriada that the government "can't do more than this," the Buenos Aires Times reported. The latest debt-swap proposal would exchange bonds issued under foreign legislation, and it equates to paying an average of \$53.50 per \$100 loaned. In May, creditors rejected an offer that represented paying \$39 per \$100 loaned.

Mexico Has World's Fourth-Highest Covid Death Toll

Mexico's number of reported deaths from Covid-19 surpassed 35,000 on July 12 as the country overtook Italy to become the country with the fourth-highest death toll from the disease, Reuters reported. Only the United States, Brazil and the United Kingdom have more deaths from Covid-19. Mexico also has more than 304,000 cases of the disease, the seventh-highest in the world, according to a tally



López Obrador // File Photo: Mexican Government.

by Johns Hopkins University. However, on July 12, Mexican President Andrés Manuel López Obrador said the pandemic was "losing intensity" in Mexico. That same day, the country recorded 276 additional fatalities and 4,482 new infections, Reuters reported. The pandemic has shown few signs of slowing down in Mexico, where some have criticized the government for easing quarantine measures and allowing businesses to reopen too soon. López Obrador said he had been briefed on the pandemic in the past week and that he was optimistic. "The report is positive, good. The conclusion is that the pandemic is going down, that it is losing intensity," López Obrador said in a video. At the same time, the president voiced his support for the country's deputy health minister, Hugo López-Gatell, who has been criticized over his handling of the pandemic. López-Gatell has continually revised his projections for the total expected deaths from the disease. In May, he had estimated 6,000 fatalities and in June said he was expecting 35,000 deaths by October, the number Mexico reached on July 12. Mexican officials have said the death toll is likely

to be far higher than the confirmed numbers because of a lack of testing.

Former Guatemalan Vice Minister Among 17 Detained

Guatemalan authorities on July 10 detained 17 people allegedly involved in a corruption case in connection with the construction of a road in the Central American country, including former Vice Minister of Communications, Infrastructure and Housing Édgar Gómez, EFE reported. In a press conference, the prosecutor's office said those detained were involved in "various irregularities" in the construction of a 14-kilometer road in Chimaltenango department. Among the charges are fraud, money laundering and embezzlement. Gómez, who was vice minister from April 2018 until current President Alejandro Giammattei took office in January, is among the 17 people arrested in connection with the case.

ECONOMIC NEWS

Colombia's Net Foreign Investment Plunges 59 Percent

Colombia's level of net foreign investment plunged 59.4 percent to \$2.23 billion in the first half of 2020, amid uncertainty related to the Covid-19 pandemic, the country's central bank said July 13, Reuters reported. In the first six months of this year, investors withdrew \$1.54 billion in Colombian equity and debt. In the same period in 2019, \$496.6 million in investment flowed into the country, the central bank said. In June, the South American country's net foreign investment shrank 97.6 percent as compared to June 2019. The government of President Iván Duque has said it expects the country's economy to contract 5.5 percent this year due to shutdown measures intended to curb the spread of the novel coronavirus.

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and services and allow financial inclusion in a competitive environment.”

A Kai Schmitz, partner at Crestone Venture Capital: “Brazil’s payment market, specifically its market for credit card issuing and acquiring, has long been a very profitable sector in Brazil’s financial services and one of the most profitable in the world. Credit card interest reaches 150 percent annually, and the fees to anticipate credit card receivables that merchants otherwise only receive with several weeks delay are similarly atrocious. This pricing power of the market participants organized through the card schemes indicates a lack of competition. There are several other aspects of the market that hinder competition, for example, a de facto lock up of vCard receivables with the merchant acquirer. However, Brazilian regulators and the central bank have in the past few years undertaken various steps to remove anticompetitive barriers and strengthen competition. This started 10 years ago with a partial deregulation of the acquiring business that led to the creation of one of the most successful fintech start-ups in the region and a significant increase of competition. The government agencies have

since then taken other steps to strengthen it, including a limitation on credit card debt roll-overs and the creation of a registry for card receivables. These steps, in my opinion, have also been effective but were not sufficient to remove the oligopolistic market structure. The central bank is now in the process of launching an exciting new initiative, a real-time account-to-account payment system called PIX that will offer a much cheaper alternative to card payments by using QR codes and other technologies. The top-down approach that the central bank has chosen may well be an outcome of frustration of slow movement by the private sector, but it will require cooperation from banks and other payment market participants. It will give Brazil a modern payment infrastructure and has the potential to be a game changer. Other countries in Latin America are working on similar initiatives and measures to make their payment markets more competitive. Colombia, for example, has just deregulated acquiring, and its banks are building a real-time automated clearinghouse.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gene.kuleta@thedialogue.org.

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Q&A EVERY BUSINESS DAY

LATIN AMERICA ADVISOR

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