ANNEX 1: BRAZIL

How the Central Bank took the reins on competition

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Today, over 100 million people in Brazil authorize their financial data to be shared securely and with consent across banks, payment providers, fintech lenders, credit cooperatives, and investment firms which are regulated under the Central Bank's open finance framework. That data covers everyday financial relationships, including accounts, payments data, and credit histories, allowing individuals and small businesses to compare offers, switch providers, initiate payments, be assessed on a fuller picture of their finances, and avoid staying tied to any single institution. Few countries operate an open finance system at this scale, making Brazil a revealing case of what competition looks like when it touches people's everyday lives.

Brazil did not arrive here by accident. These outcomes reflect sustained regulatory leadership and institutional expertise of over more than two decades, as the Central Bank made strategic use of existing mandates and policy tools to pursue competition-focused reforms with foresight and persistence. Long before digital finance gathered momentum, beginning in the early 2000s with interventions to dismantle exclusivity in card acquiring, authorities began addressing entrenched market power and laying the foundations for more contestable markets. That approach was extended over time, from early payment and access reforms through to the introduction of Open Finance in 2020 and its progressive rollout, with reforms layered as markets evolved rather than introduced in isolation. Carried across administrations and policy cycles, this regulatory strategy treated competition as a design principle rather than a corrective response, helping support a more diverse provider landscape and broad-based gains in financial inclusion.

Exclusive Arrangements Constrained Choice and Raised Costs

For much of the 2000s, Brazil's financial markets operated through arrangements that limited choice and kept costs high, particularly for small merchants and lower-income consumers. The clearest frictions appeared in payments. Card acquiring was organized around exclusivity. Visa transactions were processed only by Visanet, linked to Banco do Brasil and Bradesco, while Mastercard was tied to Redecard, part of Itaú, Brazil's largest bank by total assets. Merchants could not choose their acquirer. Pricing was opaque and varied sharply by size. Large retailers negotiated lower rates, but small

merchants often paid credit-card merchant discount rates above 3 percent, discouraging card acceptance and reinforcing reliance on cash for daily transactions (BCB 2006; CADE 2010).

Credit told a similar story. Lending grew, but borrowing costs remained high by international standards. Unsecured consumer credit rates commonly exceeded 40 percent per year, with revolving credit card rates often well above 100 percent, and overdraft rates even higher. Prices showed little variation across providers, pointing to weak competitive pressure alongside structural factors including taxes on financial transactions, targeted and subsidized credit programs, and elevated default risk—all of which helped sustain high interest rate spreads (BCB 2019; Tambunlertchai et al. 2021). Customer relationships, transaction data, and payment flows remained tightly held within the same small group of banks (Banco do Brasil, Caixa Econômica Federal, Itaú, Bradesco, and Santander), making it costly for clients to switch and difficult for cooperatives and other nonbanks to gain ground. These patterns were not incidental. They reflected how market rules and infrastructure concentrated control and shaped incentives, prompting regulators to focus on competition issues (BCB 2014; CADE 2018).

Getting the Basics Right: Lowering Distribution and Onboarding Costs

Brazil's early inclusion gains came from policies that expanded access by lowering distribution and onboarding costs. From the late 1990s, Brazil's central bank, the Banco Central do Brasil (BCB), progressively expanded the regulatory framework to permit the use of banking agents, allowing basic transactions to be delivered through retail outlets, post offices, and other nonbank locations, sharply reducing distribution costs and extending access into smaller municipalities and low-income areas (CGAP 2010). These efforts were complemented by simplified and risk-based Know-Your-Customer (KYC) rules that were progressively refined, enabling low-value accounts to be opened with lighter documentation, which later supported fully digital onboarding as market needs evolved (BCB 2019; FGV Direito Rio 2024). Government-to-person payments, notably Bolsa Família, were delivered primarily through the state-owned bank, Caixa Econômica Federal, accelerating uptake by channeling social transfers into transactional accounts and encouraging regular use, particularly among low-income households (MDS 2023). Together, these measures expanded reach and accelerated account use, setting the stage for deeper competition reforms.

Unlocking Payments: From Exclusivity to Open Infrastructure

With access expanding, attention turned to how payments were priced, accepted, and controlled. Acting through supervisory powers and antitrust coordination, in 2010, the BCB and competition regulator Conselho Administrativo de Defesa Econômica (CADE) brought an end to network–acquirer exclusivity and related contractual restrictions, allowing merchants to choose among acquirers and weakening vertical control over acceptance and pricing (CADE 2010). These changes were further consolidated in the 2013 Payments Law, adopted through legislative action following sustained engagement by the BCB, which brought retail payments under BCB oversight and established a legal framework for payment institutions, including nonbank providers, allowing them to offer payment accounts and services under proportionate rules. Together, these measures reduced incumbents' control over core payment functions and lowered barriers to entry in merchant acquiring and retail

payments (GovBrazil 2013). Supervisory data showed a clear structural shift: concentration in card acquiring fell sharply, with the top four firms' share declining from about 85 percent to below 73 percent as entry expanded beyond the former duopoly (BCB 2023a).

Competition enforcement also mattered. CADE's intervention and ongoing monitoring addressed pricing and transaction routing practices, as well as contractual terms that shaped merchants' ability to choose among acquirers after exclusivity ended. These were supported by a formal cooperation agreement signed in 2018 that established information-sharing and parallel review arrangements between CADE and the BCB (CADE and BCB 2018). Although exclusivity ended and entry widened, retail payments continued to rely on fragmented, bilateral interbank arrangements that were slow, costly, and poorly suited to everyday use. These constraints surfaced when CADE and BCB, acting under their respective competition and supervisory mandates, issued coordinated precautionary measures that suspended WhatsApp Pay's launch with card schemes, citing competition and data risks, and seeking to avoid locking in a closed ecosystem (CADE 2020; Mandl and Versiani 2020).

To address these constraints, the BCB built Pix, an instant payment rail launched in November 2020, designed and operated by the Central Bank, with mandatory participation for large banks and access for smaller banks and nonbank providers, either directly or through sponsoring institutions (BCB 2021b; BCB 2021c). Transfers settle in real time, are available at all hours, and are free for individuals, with regulated and transparent pricing for merchants. Governance, technical standards, and admission were set centrally rather than left to industry coordination. This choice reflected a judgment that earlier market-led efforts to achieve interoperable instant payments had stalled, and that relying on voluntary coordination risked entrenching fragmented and bank-led arrangements as digital payments scaled. Uptake was rapid. Within five months of launch, Pix transactions exceeded the combined volume of bank transfers, boletos (prepaid vouchers), and checks and, by the first quarter of 2021, surpassed card volumes (BCB 2021c). By 2025, Pix was clearly the dominant payment method, accounting for roughly half of all retail payment transactions, with close to 68 billion transfers annually, reshaping how households and small businesses moved money day to day (BCB 2025).

Broadening Entry through Proportionate Licensing

Another set of reforms focused on market entry, reshaping licensing rules to lower barriers without relaxing risk discipline. The BCB redesigned licensing to allow new providers to enter financial markets without becoming banks and aligning requirements more closely with the risks they took on. Payment institutions were authorized to offer transaction accounts and payment services without holding deposits, while new credit licenses—including Sociedade de Crédito Direto and Sociedade de Empréstimo entre Pessoas—enabled digital lenders to originate loans funded by capital markets or peer-to-peer arrangements rather than retail deposits (GovBrazil 2013; BCB 2018). This framework opened space for more specialized business models, including small-value consumer credit, working-capital finance for micro and small enterprises, merchant cash advances linked to payment flows, and lending embedded in digital platforms, including e-commerce and payroll systems. Alongside these licensing changes, a receivables registry made card receivables contestable collateral, cutting SME spreads by 9-11 percent and saving an estimated R$27 billion in interest (dos Santos Maciel and Machado F. Bragança 2025). By 2024, Brazil had become Latin America's largest fintech market, with

more than 1,700 active fintechs operating across dozens of segments and attracting over US$1 billion in venture investment, reflecting the scale and diversity of entry and activity that emerged under this regulatory environment (Dias 2025; Distrito 2025). Innovation hubs and regulatory sandboxes strengthened this approach by allowing new activities and technologies to be tested under close supervisory oversight, supporting regulatory learning while containing risk. More recent initiatives on tokenization and central bank digital currency pilots extend the same logic of controlled experimentation, without yet altering market structure (BCB 2024).

Making Customer Data Portable at Scale

Competition was also constrained by limits on how customer data could move across institutions. Early reforms addressed this through targeted, product-level measures aimed at easing information asymmetries and switching frictions. Credit and payroll portability, introduced in the mid-2000s, allowed customers to move specific products across providers without closing accounts (BCB 2006; BCB 2013). Credit registries were later expanded and standardized through the introduction of positive credit reporting, established in 2011 through legislative reform, which reportedly moved 41 percent of borrowers into lower-risk tiers and reduced nonpayroll personal-loan rates by about 4 percentage points (BCB 2019; BCB 2021a; Dias 2025). Together, these reforms supported price comparison and reduced some switching costs, but their reach was limited. In practice, data moved only in connection with specific product switches and typically covered only narrow slices of the customer relationship, leaving transaction histories and ongoing account data with incumbents. As a result, these product-level portability and reporting measures had limited competitive effect, constrained by procedural complexity and low consumer awareness (Azevedo, Ribeiro, and Rodrigues 2019; Bonomo et al. 2025).

Open finance marked a decisive break from these limits by changing not just what data could be shared, but also how and when. Launched in 2020 through a mandatory, phased framework rolled out under the auspices of BCB, open finance required regulated institutions to share standardized data across accounts, payments, credit, investments, and insurance, subject to customer consent (CMN and BCB 2020; Dias 2025). Participation was compulsory for institutions with more than 500,000 active customers, ensuring coverage of most retail relationships from the outset, while smaller institutions were phased in under proportionate requirements. Data sharing was on a strictly reciprocal basis: institutions participating in the ecosystem could not act solely as data requesters and were required to provide customer-authorized data when they were data holders, limiting free-riding and upholding symmetric obligations. Common technical standards and service-level requirements reduced discretion over access and data quality, with the BCB overseeing compliance on an ongoing basis and coordinating with the competition authority to address exclusion risks, including discriminatory access and denial of service, as they arose (BCB 2023a). Public performance dashboards track application programming interfaces (API) uptime and success rates, reducing scope for silent denial of access (Open Finance 2025). Scale followed quickly. By 2026, more than 100 million customers had authorized data sharing with more than 800 participant providers under the Open Finance framework, with API success rates above 98 percent, making Brazil's system one of the largest in operation (Open Finance 2025).

By 2024, governance also matured, as the system shifted from rapid build-out to long-term operation, beginning with the creation of the Open Finance Association to steward evolution and align industry and supervisory expectations (Dias 2025). This evolution reflected a deliberate sequencing of governance and cost-sharing arrangements over the life of the system. During the build-out phase, the BCB required the largest banks to fund the shared infrastructure while applying governance rules that balanced voting rights across participants, limiting the influence of incumbents despite their disproportionate financial contribution. As the ecosystem matured and participation broadened, governance was progressively formalized through an industry association, with cost-sharing widened and governance rules adjusted to reflect the stabilized structure of the system, while supervisory oversight remained with the BCB (FGV Direito Rio 2024).

A Market Transformed

A sustained competition-oriented reform agenda has reshaped how Brazilians use financial services as well as how the market itself is organized. Basic access is now close to universal. Nearly nine in ten adults hold an account, the highest share in Latin America and the Caribbean. Usage has followed. Around four in five adults now make or receive digital payments, and a majority use digital payments with merchants (Klapper et al. 2025). Faster settlement, cheaper transactions, and wider use of low-cost payment instruments have reduced everyday frictions for households and small firms, changing how money moves in daily economic life (BCB 2024). Credit access has expanded more unevenly, but information-sharing reforms have widened coverage under positive credit reporting and weakened the grip of long-standing bank relationships, supporting greater differentiation and switching at the margin (Dias 2025).

While progress has been substantial, some constraints remain. Market power remains concentrated in deposits and longer-term credit, where large banks continue to dominate balances and pricing dispersion is limited. Household indebtedness has risen alongside expanded access, with roughly 14 percent of borrowers classified as facing risky debt levels, prompting debt-relief efforts including Desenrola, a government debt-restructuring program (BCB 2023b). Furthermore, as Pix and open finance become core market infrastructure, the central challenge has shifted. Openness at the level of rails and data now depends on continued vigilance to ensure it is not quietly offset by renewed concentration in customer relationships and distribution touchpoints (BCB 2023a).

Lessons for Regulators

Brazil's journey demonstrates the pay offs of financial regulators acting early, decisively, and with sustained persistence, treating competition as an intentional design choice in fostering inclusive and resilient markets:

- **Early regulatory choices shape markets:** Competition concerns surfaced at the very early stages of financial inclusion and market development in Brazil. The BCB coordinated with the competition authority to end exclusivity between card networks and acquirers while card usage was still expanding and merchant acceptance was far from universal. Retail payments were later brought under central bank oversight through the Payments Law,

adopted through legislative action, with the BCB playing a key role in advancing the reform, placing access, pricing, and governance rules on a statutory footing before private arrangements could shape them at scale. These early choices limited how control over core payment functions could concentrate as markets deepened.

- **Competition should be embedded in policy design:** Competition and inclusion were treated as design principles rather than abstract goals. Pix mandated interoperability on a single rail and required participation by large institutions, limiting closed networks and establishing scale early. The open finance framework imposed reciprocal data-sharing obligations and applied tiered access and cost-sharing rules, limiting free-rider behavior and keeping participation affordable for smaller providers. A risk-based approach to e-KYC applied proportionately, flexible licensing aligned with increasingly unbundled financial value chains, and prudential requirements allowed nonbank payment institutions and digital lenders to operate without becoming banks, while maintaining risk discipline. Together, these choices helped preserve contestability and inclusion as markets evolved.
- **Proactive regulatory leadership drives change:** Brazil's financial regulator has never operated under a clear or explicit competition mandate, yet it has long used existing powers to shape market dynamics, from early structural banking reforms in the 1990s through to the BC+ financial system modernization agenda launched in 2016. Rather than rely on market coordination alone, the BCB built and operated core payment infrastructure while establishing and overseeing shared frameworks, including open finance; mandating participation at scale; and setting operational, access, pricing, and governance rules. Brazil illustrates how an intentional focus on competition, combined with active regulatory leadership and supported by deep technical capacity, vision-driven policy choices, and a willingness to manage risk, can enable financial authorities to address competition concerns and advance financial inclusion, even in the absence of a formal mandate.
- **Coordination supported competition oversight:** Effective oversight of financial sector competition requires thoughtful coordination between financial and competition regulators, as well as with legislators when statutory change is required. In Brazil, this was operationalized through formal cooperation arrangements and ongoing, case-based collaboration between the BCB and CADE, including information exchange and parallel intervention, as well as through sustained engagement to advance key legal reforms. This approach has been applied often, from dismantling the duopoly in card-acquiring markets to joint analyses of pricing and contractual practices, as well as the precautionary suspension of WhatsApp Pay to preserve competition in payment markets as new infrastructure, such as Pix, scaled.
- **Competition emerges across layers, so must reforms:** Effective policy reforms address constraints to competition across the full financial value chain. Brazil's progress reflects a series of reinforcing measures, from lowering onboarding barriers and expanding basic accounts and portability, to enabling more holistic credit assessments, broadening access to payments and credit data infrastructure, and easing data sharing, thus limiting the re-emergence of market power at adjacent layers. Addressing constraints across distribution,

accounts, products, rails, and data can help ensure that competitive gains in one layer are not undermined by constraints in another as markets evolve.

- **Adaptive governance sustains competition over time:** Shared financial infrastructure requires governance that evolves as usage and risks grow. In Brazil, Open Finance was launched with mandatory participation and common technical standards to secure early coverage, alongside a BCB-mandated governance and cost-sharing structure that limited the influence of large incumbents during the build-out phase. As the ecosystem matured, industry governance was progressively formalized and cost-sharing broadened, while the BCB continued to exercise supervisory oversight through compliance monitoring. Pix governance similarly prioritized broad participation and operational simplicity at launch, deferring requirements that could slow adoption. Governing shared systems to enable early scale while retaining the ability to adapt governance and oversight can help competition persist as markets mature.

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