



# Balancing cooperation and competition in retail payments (ACHs) in Colombia

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\* The opinions presented here are the sole responsibility of the author and do not intend to represent those of the Banco de la República



# Background information

- The ACH-CENIT administered by Banco de la República started operations in 1999 as an instrument for the modernization of retail PS in Colombia, according to IBRD's recommendations (1995)
- Commercial banks implemented in parallel a private ACH-Colombia. Most commercial and corporate payments are performed through this ACH-C.
- But banks are also direct participants in CENIT due to the fact that the National Government issued a Decree in 1998 indicating that all its payments to suppliers and payroll should be made through ACH-CENIT (for safety, confidentiality and price reasons).
- The Banco Agrario, a public bank with broadest geographical coverage in the country decided not to join ACH-C for disagreements in the price structure so all its operations are channeled thru CENIT.
- Since 2007 payments to the Social Protection System have contributed to a sharp increase in operations in both ACHs. The underlying information on the social protection rights and obligations' scheme are channeled exclusively thru CENIT due a government decision.



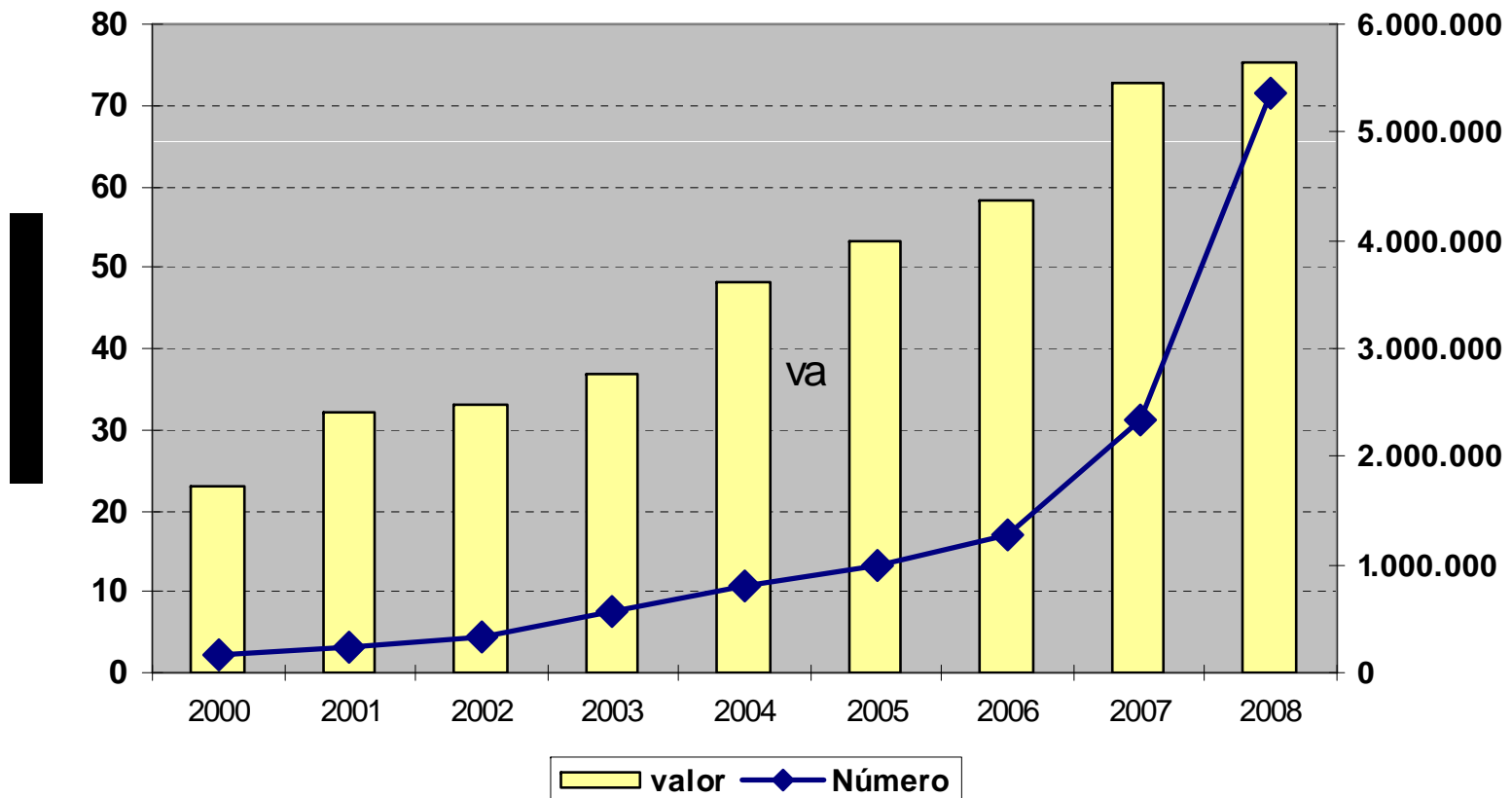
# ACHs Functionalities

	<b>CENIT</b>	<b>ACH Colombia</b>
<b>Participants</b>	<ul style="list-style-type: none"> <li>- All Banks</li> <li>- 2 Investment Banks</li> <li>- 2 Financial Cooperatives</li> <li>- 1 Central Securities Depository</li> <li>- The National Treasury</li> <li>- Information Operators of the Social Security</li> </ul>	<ul style="list-style-type: none"> <li>- All Banks except Banco Agrario</li> <li>- 1 Pension Fund</li> <li>- Information Operators of the Social Security</li> </ul>
<b>Format</b>	NACHAM - M	NACHAM -M
<b>Transactions</b>	<ul style="list-style-type: none"> <li>- PPD Debit and Credit</li> <li>- CCD Debit and Credit for social security payments</li> <li>- CTX for Government utilities payments</li> </ul>	<ul style="list-style-type: none"> <li>- PPD Debit and Credit</li> <li>- CCD Debit and Credit for social security payments</li> <li>- Online Internet payments (PSE)</li> </ul>
<b>Service Fee</b>	- US\$0.057 by transaction (originator)	- Monthly flat (fixed) fee
<b>Interbank Fee</b>	<ul style="list-style-type: none"> <li>- Set by each recipient participant:               <ul style="list-style-type: none"> <li>a) fixed by transaction nation-wide</li> <li>b) variable per city</li> </ul> </li> </ul>	- Set by the ACH Colombia Board (variable per city)
<b>Operative</b>	<ul style="list-style-type: none"> <li>- Multilateral netting</li> <li>- Settlement at Central Bank accounts</li> <li>- Return items at the next cycle (5 each day)</li> </ul>	<ul style="list-style-type: none"> <li>- Multilateral netting</li> <li>- Settlement at Central Bank accounts</li> </ul>



# Figures for CENIT

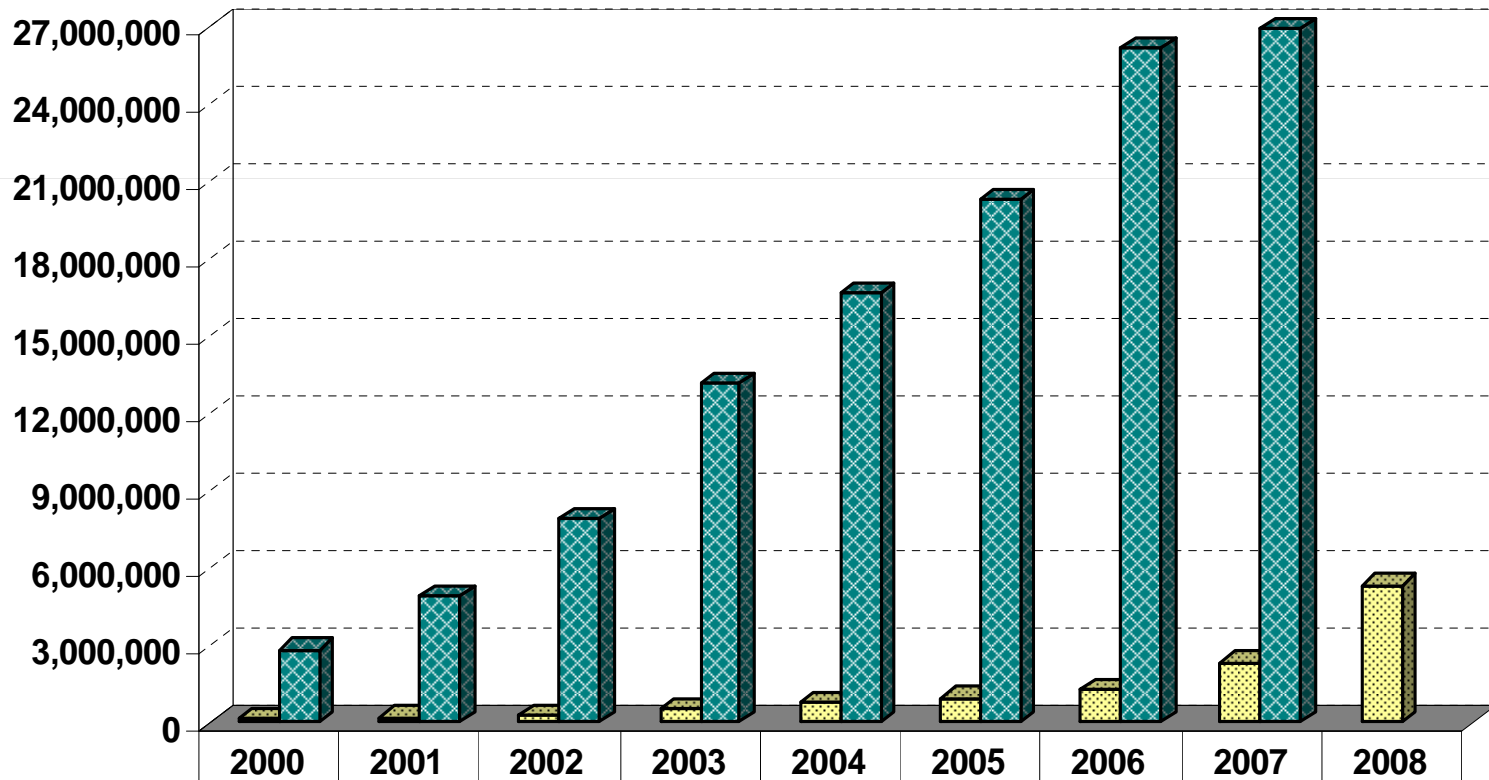
(forecast for 2008 based on figures for I half of the year)





# Volume of Transactions

## CENIT vs. ACH COLOMBIA - #



	2000	2001	2002	2003	2004	2005	2006	2007	2008
■ CENIT	172,125	234,534	332,435	576,324	792,794	997,792	1,264,13	2,344,07	5,372,07
■ ACH Colombia	2,837,39	4,957,36	7,890,37	13,178,7	16,698,8	20,311,0	26,213,2	44,845,0	



# Cooperation vs Competition

- The fact that both ACH use similar operating standards (NACHA-M) and have a common base of participantes facilitate interoperability, prevent fragmentation, allow that social efficiency gains are largely reached and support business continuity for banks in case of a major disruption in any of the ACH
- Among the most salient benefits of competition among ACH is the fact that CENIT has been instrumental for reaching relevant policy goals such: access of non-bank “information operators of the social security” scheme to the payment system, payments from unbanked population, consistency control of social protection payments (over 40 million monthly registers), tariff structure, innovation and best international practices.



# IBRD Remarks

- **“The coexistence of 2 ACHs has adverse effects on economies of scale and scope** (“with potential effects on innovation and prices to end-users but ...there is no available information to assess whether cost savings are passed on to them” according to the IBRD Report)
- **“Although the presence of two ACH platforms has increased contestability for some market participants, this has been limited by discriminatory business practices (the two ACHs have traditionally catered to mostly different market segments)”**
- **“One manifestation of partial market segmentation is distinct ACH access and pricing policies, which can be partly attributed to different governance arrangements”**
- **“The multiplicity of relevant policymakers and the absence of adequate institutional coordination mechanisms have hindered the development of an effective oversight function. Oversight is also hindered by the lack of explicit government objectives and by the relatively minor involvement of the BR in this field”**





# IBRD Policy Options

The IBRD Report proposes the following options to improve the functioning of the ACH market :

- 1) Concerning the industrial organization:
  - a) **“To maintain two separate ACH platforms but strengthen competition between them”**: liberalize markets by eliminating those business practices that affect choice and pricing of services
  - b) **“To merge the two infrastructures into a unique ACH platform**: lower pricing might not materialize if the unified provider acts as an unrestrained monopoly, which could lead instead to higher fees, lower service standards and lack of innovation. Stronger governance arrangements and a robust oversight and antitrust framework would therefore be essential preconditions for the successful realization of the objectives of this option, otherwise it should not be pursued”





# IBRD Policy Options

- 2) **“To enhance transparency in the functioning of the ACH market:** ...greater public disclosure of the operating arrangements of ACH platforms (i.e. shareholder structure, decision-making mechanisms, pricing and access policies etc.) – particularly for ACH-C
- 3) **“To strengthen oversight arrangements, particularly via the establishment of robust institutional coordination** (...and information sharing between relevant public and private sector participants mechanisms...), is another important – albeit complex – policy measure”



**Thanks !!!**