



RESEARCH COLLECTIVE ON ADVANCED STUDIES

IN REGULATION OF THE
BRAZILIAN FINANCIAL SYSTEM

NEASF

REPORT ON THE 17TH MEETING OF THE RESEARCH
COLLECTIVE ON ADVANCED STUDIES IN REGULATION
OF THE BRAZILIAN FINANCIAL SYSTEM (NEASF)

OPENING AND INITIAL COMMENTS

On October 5, 2023, the 17th Meeting of the Research Collective on Advanced Studies in Regulation of the Brazilian Financial System (NEASF) of the Rio de Janeiro School of Law at Fundação Getulio Vargas took place at the PagBank headquarters in São Paulo.

The main objective of NEASF is to contribute to the improvement of the regulation of the National Financial System (SFN) through research and analysis that identify regulatory challenges and envision opportunities for the enhancement of the financial sector in Brazil.

NEASF comprises a multi-stakeholder composition, involving members from academia, the market, and the government. Through quarterly meetings, its members discuss relevant topics concerning the regulation of the SFN, collaborating for a broader understanding of the sector, trends, risks, and any regulatory gaps and their implications.

The theme chosen for the 17th NEASF Meeting was “Portability: rethinking the power of action in the financial market.” On this occasion, two sessions were held, addressing the following topics: (i) portability in the payments market and (ii) portability in the credit and guarantees market.

The statements of the members of Fundação Getulio Vargas and invited participants in the meeting represent solely their own opinions and do not necessarily reflect the institutional position of FGV.

This report was prepared¹ under the Chatham House Rule², preserving the confidentiality of participants and promoting an environment of open and constructive discussion.

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²“When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed?” Source: Chatham House, The Chatham House Rule: <https://www.chathamhouse.org/chatham-house-rule>.

CONTEXTUALIZATION OF THE DISCUSSIONS: THE EVOLUTIONARY AGENDA OF THE CENTRAL BANK OF BRAZIL AND NEXT STEPS

During the 17th NEASF Meeting, the evolution of portability within the Brazilian financial system was discussed, focusing on its impact on competition and the technological and regulatory challenges involved. The debate centered on the trajectory of portability in Brazil, observed benefits, and the existing barriers, as well as technology's role as a vector for market transformation.

In recent years, technology has been a catalyst for transformation in the National Financial System (SFN). The BC# Agenda redesigned the project initiated in 2016 by the Central Bank of Brazil (BCB), known as BC+. At that time, the BC+ Agenda comprised measures aimed at achieving economic objectives through short, medium, and long-term actions, structured around four dynamic pillars: greater financial citizenship, more modern legislation, a more efficient financial system, and cheaper credit³. The BC# Agenda seeks to go further, adding new dimensions and strengthening previous dimensions in six areas: (i) inclusion; (ii) competitiveness; (iii) transparency; (iv) education; (v) sustainability; and (vi) excellence⁴.

The transition from the BC+ Agenda to BC# by the Central Bank of Brazil (BCB) aimed primarily to leverage technology to make credit more accessible and affordable as part of a broader effort to modernize the financial sector and

stimulate economic activity⁵. In this context, Bill No. 4,188/2021⁶ was proposed, aiming to establish a legal framework for using guarantees to provide credit. This project was approved by the Legislative Branch on October 3, 2023, resulting in Law No. 14,711/2023, known as the Legal Framework for Guarantee Loans. Among the approved changes is the possibility of using extrajudicial measures via notary offices for the recovery of delinquent credit, aiming to reduce transaction costs with legal demands.

The measure allows creditors to make discount proposals through protest letters, intending to recover the credit. Communication with the debtor can be done via simple letter, e-mail, or instant messaging applications and may have a thirty-day response period from acceptance. In this sense, the new framework creates the figure of the guarantee agent, who will be appointed by the creditor and will act on their own behalf and for the benefit of the creditors. The framework also stipulates that a property being acquired as a fiduciary alienation instrument may be offered as collateral, with fiduciary alienation taking priority in the event of any necessary execution⁷.

The primary objective cited for the approval of the security framework is the reduction of default risk and the recovery of credits, by creating mechanisms to encourage payments and renegotiation. Other mentioned goals include

³BAPTISTA, Pedro Antônio de Jesus Nome. Agenda BC+ and Agenda BC#: Notes for External Control of the Public Policy to Reduce Banking Spread in Brazil. Monograph (Specialization - Public Policy Evaluation), Instituto Serzedello Corrêa, Escola Superior do Tribunal de Contas da União, Brasília, 2022. p. 72.

⁴Available at: <https://www.bcb.gov.br/acessoinformacao/bchashtag>. Accessed on: Nov 11, 2023.

⁵More information available at https://www.bcb.gov.br/acessoinformacao/bchashtag?modalAberto=sobre_agenda.

⁶Available at the Chamber of Deputies: <https://www.camara.leg.br/propostas-legislativas/2309053>; and at the Federal Senate: https://www25.senado.leg.br/web/atividade/materias/-/materia/154430?gl=11rcsagngaNDcyNTAzMDM3LjE2NjMyNjI5NTk.gaCW3ZH25XMK*MTY5ODQ5NDUyOC4xMS4wLjE2OTg0OTQ1MjguMC4wLjA. Both accessed on: Nov 11, 2023.

⁷For a summary of the main changes: BRAZIL. Senate. Legal framework for loan guarantees proceeds to sanction. Senate Agency, 10/05/2023. Available at: <https://www12.senado.leg.br/noticias/materias/2023/10/05/marco-legal-das-garantias-de-emprestimo-segue-para-sancao>. Accessed on: Oct 28, 2023.

reducing the cost of credit and financing interest rates and expanding access to credit.

A Mention should also be made of Bill No. 2,685/2022⁸, which gave rise to Law No. 14,690/2023, establishing the Programa Desenrola Brasil (Desenrola Brasil Program). This law allows for debt refinancing, enabling “the replacement of expensive debt with cheaper debt”⁹, and establishes, in its Article 28, a kind of cap on interest rates charged on revolving credit, through the self-regulation of credit card issuers and other post-payment instruments arranged between parties.

Moreover, the BCB submitted for the Executive Branch’s consideration the bill No. 2,926/2023¹⁰, which will regulate institutions operating market infrastructure within the Brazilian Payment System (SPB).

This is an innovative proposal that seeks to resolve a historical absence of a legal framework for Financial Market Infrastructure (IMF) aligning with best international practices as indicated by the Principles for Financial Market Infrastructures¹¹, published in 2012.

The National Financial System (SFN) has been undergoing relevant regulatory and institutional changes that resulted in a more

competitive scenario in the financial sector. These transformations included the regulation of different types of payment institutions and credit fintechs, the implementation of the Instant Payment System (Pix), and Open Finance. Another significant initiative within BCB’s innovation agenda is the development of a digital currency as a sovereign means of exchange in an environment with digitized assets.

In this regard, the BCB is developing the Drex Platform which, utilizing Distributed Ledger Technology (DLT), will facilitate secure transactions with digital assets and smart contracts, providing advanced financial services that will be settled within the platform itself¹².

Among the measures implemented to enhance the efficiency of the National Financial System (SFN), it is worth highlighting the changes in the rules related to registration, credit, and salary portability. The credit and registration portability instrument was initially established by CMN Resolution No. 3,401/2006 and underwent significant modifications with CMN Resolution No. 4,292/2013, when credit portability operations effectively began¹³.

Registration portability refers to a client’s ability to transfer information regarding their relationship with a financial institution

⁸Available at: <https://www25.senado.leg.br/web/atividade/materias/-/materia/159868>. Accessed on: Nov 11, 2023. It is noteworthy that the text of Provisional Measure No. 1,176/2023, which created Desenrola Brasil, anticipating the approval of the bill, was included in the deliberation of Bill No. 2,685/2022 itself.

⁹As justified in Bill No. 2,685/2022. Available at: https://www.camara.leg.br/proposicoesWeb/prop_mostrarintegra?codteor=2212050&filename=PL%202685/2022. Accessed on: Nov 11, 2023.

¹⁰Available at: <https://www.camara.leg.br/proposicoesWeb/fichadetramitacao?idProposicao=2367423>. Accessed on: Nov 11, 2023.

¹¹COMMITTEE ON PAYMENTS AND MARKET INFRASTRUCTURES; INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS. Principles for Financial Market Infrastructures. Bank for International Settlements (BIS), 2012. Available at: <https://www.bis.org/cpmi/publ/d101a.pdf>. Accessed on: May 07, 2024.

¹²Since its launch, Drex has successfully conducted 500 operations in just 50 days, with the active participation of 11 institutions. Started at the end of July, the project’s pilot has allowed the simulation of various operations, both wholesale and retail, and already simulates procedures for buying and selling federal government bonds. The first phase of the pilot is expected to operate until mid-2024, with the aim of expanding and improving the platform’s functionalities. Source: BANCO CENTRAL DO BRASIL. Drex: in 50 days, 500 operations have already been successfully conducted and 11 institutions operate on the network. Agência EBC, [S.l.], Sep 13, 2023. Available at: <https://agenciagov.ebc.com.br/noticias/202309/drex-em-50-dias-500-operacoes-ja-foram-conduzidas-com-sucesso-e-11-instituicoes-operam-na-rede>. Accessed on: Oct 07, 2023.

¹³BANCO CENTRAL DO BRASIL. Banking Economy Report. 2022. Box 10 – Has portability increased banking competition?. Available at: <https://www.bcb.gov.br/content/publicacoes/relatorioeconomiabancaria/reb2022p.pdf>. Accessed on: Nov 07, 2023, p. 176.

to another institution. This implies that a client's history is not exclusive to the previous institution, allowing the change of institution and transfer of information, without the need to create a new relationship history.¹⁴

On the other hand, credit portability¹⁵ refers to credit contracts¹⁶ or leasing agreements and corresponds to the possibility for the borrower/debtor (individual, sole proprietor, or micro-entrepreneur) to settle the obligation in advance with the creditor financial institution, using funds obtained through a new loan agreement with another financial institution¹⁷.

These measures aim to enhance efficiency and competitiveness in the Brazilian financial market, benefiting consumers by providing them with more options and ease when choosing their financial products, thereby stimulating competition among financial institutions¹⁸.

According to the BCB, in 2022 there was a decline in the number of credit portability requests (a decrease of 50.6% compared to 2021) to 5.1 million, with 1.9 million requests being processed (a reduction of 57.5%), corresponding to R\$17.4 billion transferred (a decrease of 64.8%)¹⁹. This decrease in the success rates of portability requests and the increase in cancellation rates

indicate an unfavorable scenario for credit supply, evidenced by the adoption of a more restrictive policy with greater risk aversion by the proposing institutions.

More recently, the National Monetary Council (CMN) approved the CMN Resolution No. 5,057/2022, aiming to consolidate the rules applicable to credit portability operations. In this context, the BCB enacted the Resolution No. 283 of 2023 to regulate the procedures for the portability of credit and leasing operations as addressed by CMN Resolution No. 5,057/2022.

These actions align with the goal of promoting competition and innovation in the financial sector, without compromising stability. By supporting the digitalization and improvement of regulation, the BCB aspires to create a balanced environment where both traditional and emerging financial entities can operate efficiently and securely. However, with the advancement of digitalization, issues of privacy and data security are becoming increasingly critical, requiring robust structures for data protection to maintain consumer confidence and safeguard the integrity of the financial system.

¹⁴AFONSO, José Roberto; KÖHLER, Marcos Antonio; FREITAS, PS de. Evolution and determinants of banking spread in Brazil. Center for Studies of the Senate Federal Consultancy. Discussion papers, v. 61, 2009.

¹⁵According to the Central Bank of Brazil, "The portability market involves, in addition to the client, two actors: the original creditor, the institution that granted the credit, and the proponent, the institution that will be the destination of the ported contract. Frequently, a financial intermediary is also involved. Generally, portability requests can be classified into one of the following four situations: executed (when the request is carried out and the contract is transferred from the original creditor to the proponent); canceled (at the client's request or, usually, by the proponent's choice - due to credit policy, for example); retained (when the process stops due to the original creditor, due to some data inconsistency or because the contract conditions are renegotiated); and pending (request awaiting some action; if not executed, retained by the creditor, or canceled by the proponent, it will be canceled by the registrar)." In: Banking Economy Report. 2022, p. 22. Available at: <https://www.bcb.gov.br/content/publicacoes/relatorioeconomiabancaria/reb2022p.pdf>. Accessed on: Nov 07, 2023.

¹⁶The mentioned credit operations are found in art. 1, III, c, of Resolution 2,835/2001. Available at: https://www.bcb.gov.br/pre/normativos/res/2001/pdf/res_2835_v2_p.pdf. Accessed on: Nov 07, 2023.

¹⁷MIRAGEM, Bruno. Banking Law. rev., updated and expanded. São Paulo: Thomson Reuters Brasil, 2019, p. 143.

¹⁸BANCO CENTRAL DO BRASIL. Banking Economy Report. 2020, p. 37. Available at: https://www.bcb.gov.br/content/publicacoes/relatorioeconomiabancaria/reb_2020.pdf. Accessed on: Nov 07, 2023.

¹⁹BANCO CENTRAL DO BRASIL. Banking Economy Report. 2022, p. 22. Available at: <https://www.bcb.gov.br/content/publicacoes/relatorioeconomiabancaria/reb2022p.pdf>. Accessed on: Nov 07, 2023.

SESSION 1

PORTABILITY IN THE PAYMENTS MARKET

Initially, the trajectory of portability initiatives in Brazil was mentioned, highlighting the pioneering nature of the policies implemented in the past, which aimed to allow the transfer of information and operations between financial institutions. The initial focus was on registration portability, an attempt to facilitate customer migration through the sharing of basic information, such as credit data. However, it was pointed out that the operationalization of this model faced barriers, as it depended on manual and bureaucratic processes, incompatible with an increasingly digitized financial system.

With the evolution of data sharing technologies, the advent of Open Finance was cited as a landmark that enabled the overcoming of some of these barriers. Open Finance, by digitizing and automating the sharing of information, allowed a significant reduction in switching costs between financial institutions, creating a more competitive and migration-friendly environment.

Credit Portability: Opportunities and Challenges

Credit portability in Brazil encompasses four main types: housing loans, payroll-deductible loans, personal loans, and vehicle loans. Each one has specific characteristics concerning its purpose, risks involved, and operating conditions.

Housing loan is intended for financing real estate, which can be used for purchase, construction, or renovation. In Brazil, it is regulated by two main systems: (1) the Housing Finance System (SFH), for the purchase, renovation, or construction of residential property, provided certain conditions are met (it must be located in an urban area; registered with the competent real estate registry; not have been bought or built

entirely or partially with FGTS (Guarantee Fund for Length of Service) account resources in the past three years; and not exceed the appraisal value defined for SFH financing, currently R\$1.5 million); and (2) the Real Estate Financial System (SFI), which can be used for any real estate that does not fit SFH criteria²⁰.

Payroll loans are characterized by the automatic deduction of loan installments directly from the borrower's payroll or social security benefit. This feature makes the risk of default very low, as the financial institution has a guarantee of payment²¹⁻²². Due to the lower risk involved, the interest rates

²⁰There are several regulations on the subject: Circular Letter 3,560/2012; Resolution No. 1,980/1993; Resolution No. 3,694/2009; Resolution No. 3,811/2009; Resolution No. 3,841/2010; Resolution No. 3,919/2010; Resolution No. 4,676/2018; Law No. 4,380/1964; Law No. 8,177/1991; Law No. 8,660/1993; Law No. 9,514/1997; Law No. 11,922/2009; Law No. 11,977/2009; and Provisional Measure No. 2,197-43/2001. On the subject see: BANCO CENTRAL DO BRASIL. Real estate credit. Updated on 31/01/2023. Available at: <https://www.bcb.gov.br/meubc/faqs/s/credito-imobiliario>.

²¹BANCO CENTRAL DO BRASIL. Payroll loan: characteristics, access, and use. p. 110. Available at: https://www.bcb.gov.br/nor/releidfin/docs/art7_emprestimo_consignado.pdf.

²²The Central Bank does not have specific regulations on payroll loans, but there is specific federal legislation: (1) federal public servants, Law No. 8,112/1990 and Decree No. 8,690/2016; (2) public servants and pensioners of states, municipalities, and the Federal District: local legislation; (3) employees governed by the CLT, holders of pension and retirement benefits from the General Social Security System and federal income transfer programs (current Bolsa Família), Law No. 10,820/2003; (4) INSS retirees, Law No. 8,213/1991 and INSS/PRES Normative Instruction No. 28/2008 (amended by INSS Normative Instruction No. 81/2015). For more information: BANCO CENTRAL DO BRASIL. What rules apply to payroll-deductible loans. Available at: <https://www.bcb.gov.br/meubc/faqs/p/quais-regras-se-aplicam-ao-credito-consignado>

on payroll-deductible loans are generally lower compared to other types of credit. They are widely offered to: (i) public servants; (ii) retirees and pensioners of the INSS (National Institute of Social Security); (iii) private sector workers with a formal employment contract, provided there is an agreement between the employing company and the financial institution²³.

The third, personal loan, is granted without a specific purpose, meaning the borrower has the freedom to use the funds as they prefer. This credit is offered by various institutions, such as banks, credit unions, and fintechs²⁴.

The fourth and final type is vehicle loan, a specific loan modality designed for financing both new and used vehicles. The financed asset, generally functioning as loan collateral, allows for lower interest rates than those of personal credit.

The four types of credit - housing loan, payroll loans, personal loans and vehicle loans - cater for different profiles and financial needs. Mortgage loans and payroll loans offer more advantageous conditions, such as reduced interest rates, due to the stronger guarantees they provide. On the other hand, personal loans and vehicle loans, which are more accessible and flexible, offer less favorable conditions due to the risk involved.

The portability of credit was discussed as a fundamental tool for reducing consumers' financial costs, especially during times of falling interest rates. Data indicated that portability is more frequent in larger value operations,

reflecting a greater consumer awareness with a better financial profile.

However, operational challenges and distortions in the process were mentioned, such as: (i) credit origination costs: the transfer of credit operations generates costs that impact the original institution, especially in modalities like housing credit; (ii) the role of intermediaries (bank correspondents): In segments like payroll loans, the aggressive actions of intermediaries resulted in distorted practices, such as excessive prolongation of debts and the compromise of the value of guarantees.

Currently, the operation of portability is carried out by Nuclea (formerly known as Interbank Payments Chamber - CIP), a public limited company that is part of the Brazilian Payment System (SPB)²⁵. To execute this type of operation, the client must provide several pieces of information, such as their CPF (Registration of Individuals) or CNPJ (National Register of Legal Entities), the credit operation contract number subject to portability attributed by the original creditor institution, and the credit proposal of the proposing institution to the former debtor of the ported credit operation (indicating the annual, nominal, and effective interest rates, the Total Effective Cost - CET, the operation term, the amortization system, and the value of the installments)²⁶.

During the discussion, it was highlighted that reducing costs associated with technology, combined with advances in data digitization, has resulted in significant transformation in the financial system. This process enabled

²³From May 2014 to December 2016, while the average interest rate for payroll loans was 27.9% per year, the average interest rate for non-consolidated personal loans was 117.3%. BANCO CENTRAL DO BRASIL. Banking Economy Report 2022. p.177. Available at: <https://www.bcb.gov.br/content/publicacoes/relatorioeconomiabancaria/reb2022p.pdf>.

²⁴BANCO CENTRAL DO BRASIL. Learn about the types of loans available to financial services consumers. 02/26/2018. Available at: <https://www.bcb.gov.br/detalhenoticia/227/noticia>.

²⁵For more information about Nuclea, see: <https://www.nuclea.com.br/sobre-nos/>
Its bylaws are available at: <https://www2.nuclea.com.br/Juridico/Estatuto%20Social.pdf>

²⁶The necessary information is provided in Article 7 of Resolution 5,507/2022. In addition to the mentioned information, the article requires at least the following information: three reference dates for calculating the outstanding balance of the credit operation subject to portability, in the case of real estate credit operations; price index or remuneration basis to be used in the proposed credit operation, if any; debtor's phone number, including the direct dialing code (DDD), or email address; full address, including the Postal Code (CEP), or email address of the proposing institution, for receiving documentation related to portability.

many financial institutions, often smaller ones, to find favorable conditions for viability and competitiveness in the market. Technological innovation has been widely recognized as the main vector of this transformation, creating space for structural changes in the sector, mainly by developing alternative business models that were previously unsustainable.

One of the fundamental aspects of this phenomenon was the reduction of operational costs, made possible by the automation of processes and the elimination of intermediaries at various stages of financial services. Another widely discussed point was the increased access to data, resulting from the digitization and use of advanced analytical technologies. This greater availability of information on consumer behavior and needs enabled the development of more personalized services, better aligned with each client's financial reality.

In line with the mentioned trends, in 2021, the implementation of Open Finance marked a significant advance in facilitating the portability process, which had previously been characterized by manual and bureaucratic procedures. With the introduction of this new system, customers could automatically share their financial information with different institutions digitally, quickly, and securely.

This innovation not only simplified the transfer of data between institutions but also significantly reduced switching costs – the financial, temporal, and operational costs that customers traditionally faced when deciding to migrate to another financial institution.

By eliminating some of these barriers, Open Finance boosted market competitiveness, providing consumers with greater freedom of choice and encouraging institutions to offer better service conditions²⁷.

In the debate, it was highlighted that, despite the innovations brought by the implementation of Open Finance and the improvements observed in the portability process, the population's adherence still remains at low levels. Exemplary data showed that, in December 2020, only 10% of active payroll loan operations were subject to portability, while in housing credit, this number was even lower, reaching 6%, and in vehicle credit, practically irrelevant, with only 0.1% of operations transferred²⁸.

A survey conducted by Datafolha at the request of Zetta provided new insights into the population's perception regarding portability. The study revealed that six out of ten unbanked individuals had never heard of the possibility of transferring their credits, a figure that exposes a gap in the dissemination of information and consumer financial education. Among banked individuals who have sought to carry out portability, only 16% attempted to complete the process, with 6% related to credit portability and 10% related to salary portability. Additionally, 80% of respondents declared having no interest in carrying out portability, which reinforces the need to simplify the process and increase awareness of its potential benefits²⁹.

Among the primary obstacles identified by respondents who could not complete the portability process are difficulties with documentation, excessive bureaucracy, and delays in approval, largely caused by inconsistencies in information like CNPJ and personal data provided by the client. These problems contribute to the perception that the portability process is still costly and time-consuming, deterring potential beneficiaries.

²⁷For more information on switching costs, see Banking Economy Report, 2020, p. 52-56. Available at: https://www.bcb.gov.br/content/publicacoes/relatorioeconomiabancaria/reb_2020.pdf

²⁸BANCO CENTRAL DO BRASIL. Banking Economy Report 2020. P. 39. Available at: https://www.bcb.gov.br/content/publicacoes/relatorioeconomiabancaria/reb_2020.pdf

²⁹ZETTA. Portability Overview. P. 21. Available at: <https://somozetta.org.br/wp-content/uploads/2023/04/Zetta-Panorama-da-Portabilidade-desktop.pdf>.

Another aspect discussed was the discrepancy in the volume of portability requests among credit modalities, with payroll-deductible loans predominantly occupying the forefront, as most requests are derived from them. Data from December 2018 illustrate this reality: during that period, 97.8% of portability requests were related to payroll-deductible loans, while housing credit represented only 2.1% and personal and vehicle loans were almost nonexistent, at 0% and 0%, respectively³⁰. This trend was also observed in December 2019, when 95.6% of portability requests remained concentrated in payroll loans, while housing credit slightly increased to 4.3%, personal credit remained at 0%, and vehicle credit reached only 0.1%³¹.

An explanation for this concentration in payroll loans was presented: the role of bank correspondents³², popularly known as “folders”³³. In 2019, 75% of portability requests of this nature were intermediated by these professionals, who played an active role in acquiring new clients³⁴. However, there was a marked decline in this participation in 2020,

with the proportion dropping to 35.8% in December of the same year³⁵. This reduction was attributed to the growth of digital financial institutions, which began to adopt direct platforms and more intensive customer relationship strategies, thus eliminating the need for intermediaries³⁶.

Regarding the dynamics of payroll loans, two primary effects during the portability process have been discussed. The first pertains to the reduction of interest rates, which on average shows a drop of 5.7 percentage points compared to original rates³⁷. The second effect concerns the subsequent operations that arise after confirmation of portability. It was observed that, frequently, the proposing institution offers a second operation of this type of credit to the client, either through the “prepayment” of the ported operation and the granting of a new loan, or through the provision of additional credit, in which case the client ends up with two active operations.

³⁰BANCO CENTRAL DO BRASIL. Banking Economy Report - 2019. P. 27. Available at: https://www.bcb.gov.br/content/publicacoes/relatorioeconomiabancaria/REB_2019.pdf.

³¹BANCO CENTRAL DO BRASIL. Banking Economy Report - 2019. P. 27. Available at: https://www.bcb.gov.br/content/publicacoes/relatorioeconomiabancaria/REB_2019.pdf.

³²Bank correspondents are individuals or legal entities (lotteries or postal banks) contracted by banks and other institutions authorized by the Central Bank (BC) to provide customer service. Individuals, to become correspondents, need to act as notary and registration service providers, according to Law No. 8,935/1994. BANCO CENTRAL DO BRASIL. Bank correspondents - Correspondents of banks and other institutions. Updated on 05/22/2023. Available at: <https://www.bcb.gov.br/meubc/faqs/p/quem-sao-correspondentes-no-pais>

Currently, the regulation of bank correspondents is governed by CMN Resolution No. 4,935, of July 29, 2021. Available at: <https://www.bcb.gov.br/estabilidadefinanceira/exibenormativo?tipo=Resolu%C3%A7%C3%A3o%20CMN&numero=4935>

³³“Folders” are bank correspondents who encourage individuals to take out loans. There is much controversy surrounding these individuals due to practices considered abusive to force loan contracts, especially among the elderly. For more information on the topic, see: PROTESTE. Have you heard of the “folders”? Published on 01/22/2018. Available at: <https://www.proteste.org.br/dinheiro/emprestimo-consorcio-e-financiamento/noticia/voce-ja-ouviu-falar-nos-pastinhas>

Additionally, FEBRABAN instituted the Self-Regulation System for Personal Loan and Credit Card Operations with Payroll Deduction, in effect since January 2, 2020, which establishes three objectives: (1) a call blocking system for consumers who do not want to receive payroll loan offers; (2) creation of a database to monitor complaints received due to inadequate product offers; (3) implementation of measures to combat commercial harassment and increase transparency in the qualification of correspondents. FEBRABAN. Self-Regulation for Payroll Loans. Available at: <https://www.autorregulacaobancaria.com.br/pagina/43/23/pt-br/consignado-apresentacao>.

³⁴Ibid, p. 25-26.

³⁵Ibid, p. 25-26.

³⁶Ibid, p. 25-26.

³⁷Ibid, p. 40.

Despite the predominance of payroll loans³⁸, there has been significant growth in the portability of real estate credit in recent years. In 2020, this modality reached 15.7% of the total requests, representing an increase almost three times higher compared to the previous year. One of the reasons pointed out for this increase was the significant reduction in the number of installments in migrated operations. With the drop in interest rates resulting from portability, consumers can reduce the total cost of financing, whether through debt renegotiation with the institution itself or by significantly amortizing the outstanding balance³⁹. Between 2020 and 2021, an average drop of 2.9 percentage points per year in interest rates was observed for those who carried out portability or renegotiated their conditions, illustrating the positive impact of this tool in reducing financial costs⁴⁰.

However, the portability process is not exempt from operational challenges. One of the main points debated is the difficulty in pricing the “Reimbursement of Origination Costs” (RCO)⁴¹, a fee paid by the proposing institution to the original lender as compensation for costs associated with the initial contracting of the portable operation⁴². This reimbursement,

defined by the Portability Management Committee⁴³, varies according to the credit modality and the migrated amount. Although the RCO may be an important solution for balancing portability costs, it represents a significant regulatory bottleneck, especially in the case of housing credit, where operations possess lengthy terms and high origination costs⁴⁴. Additionally, the reference values of the RCO in this modality are substantially higher compared to payroll loans, personal, and vehicle loans, which makes the topic even more complex and relevant in the Central Bank’s regulatory agenda⁴⁵⁻⁴⁶. Still, it was acknowledged that, despite the difficulties, the operability of portability has shown positive results, with about 75% of requests being completed. This data demonstrates significant progress, even though challenges remain.

Finally, the portability of credit card debts was discussed, especially after the enactment of Law No. 14,690/2023, which established the Emergency Debt Renegotiation Program (known as “Desenrola Brasil” in portuguese)⁴⁷. It granted consumers the right to transfer the balance owed on credit card statements, including installment amounts, to other financial institutions. In this context, two points were

³⁸Ibid, p. 27.

³⁹Ibid, p. 39.

⁴⁰Ibid, p. 40.

⁴¹NUCLEA. Ref.: Clarifications regarding the RCO process - CTC. April 4, 2023. Available at: <https://www2.nuclea.com.br/SAP/INFO-NUCLEA%20CTC-009-2023%20-%20Esclarecimentos%20referente%20ao%20processo%20de%20>

⁴²Ibid.

⁴³“The RCO is determined by a self-regulation of Febraban and other entities. According to Febraban, every two years a consultancy is hired to calculate the values, considering costs related to customer identification, risk and credit profile assessment, asset value qualification (in the case of vehicle or real estate financing), credit transfer service expenses (operated by Nuclea, former CIP), possible legal assistance for contractual issues, among others.” VALOR. Cost hinders credit portability and a cap may be created. Available at: <https://valor.globo.com/financas/noticia/2023/10/17/custo-atrapalha-portabilidade-de-credito-e-pode-ser-criado-um-teto.ghtml>. Accessed on: October 17, 2023.

⁴⁴For more information on the topic, see: VALOR. Cost hinders credit portability and a cap may be created. October 17, 2023. Available at: <https://valor.globo.com/financas/noticia/2023/10/17/custo-atrapalha-portabilidade-de-credito-e-pode-ser-criado-um-teto.ghtml>

⁴⁵BANCO CENTRAL DO BRASIL. Banking Economy Report - 2021. p.183. Available at: https://www.bcb.gov.br/content/publicacoes/relatorioeconomiabancaria/reb_2021.pdf.

⁴⁶These values are updated by the Portability Management Committee. For more details on the RCO process, see: NUCLEA. Ref.: Clarifications regarding the RCO process - CTC. April 4, 2023. Available at: <https://www2.nuclea.com.br/SAP/INFO-NUCLEA%20CTC-009-2023%20-%20Esclarecimentos%20referente%20ao%20processo%20de%20RCO%20-%20CTC%20.pdf>

⁴⁷BRAZIL. Law No. 14,690, of October 3, 2023. Available at: <https://normas.leg.br/?urn=urn:lex:br:federal:lei:2023-10-03;14690>. Accessed on: Dec 17, 2023.

highlighted. The first referred to the growing use of interest-free installment payments on credit cards as a relevant mechanism for financing consumption, which will require regulatory efforts to enable a quick and low-cost portability process. The second point addressed the revolving credit card debts, which have the highest delinquency rates and market costs, with rates reaching 445.7% per year in July 2023 and a delinquency close to 49.5%. The low quality of this credit raises doubts

about the interest of financial institutions in acquiring debts from the revolving sector due to the difficulty in recovering the entire amount. An initial proposal to address this issue was discussed, involving the possibility of credit card debt portability towards future installments, which is still in an embryonic stage, but with potential to mitigate current market distortions.

Salary Portability: Limitations on the Regulatory Role of the BCB

Salary portability was widely debated as a central issue for competition in the financial system. The salary account is the form usually adopted by employers for the payment of salaries, earnings, wages, pensions, and similar items, currently regulated by CMN Resolution No. 5,058, dated December 15, 2002⁴⁸. This regulation guarantees the account holder the right to salary portability, meaning the ability to transfer the credited amount in the specified account for other deposits or pre-paid payment in their own name, within the same contracted institution or another institution authorized to operate by the Central Bank⁴⁹. The topic of salary portability is regulated by BCB Resolution No. 284, of January 4, 2023⁵⁰, which aims to establish the necessary procedures to carry out this type of transaction.

It was noted that receiving salaries in a specific institution, often determined by the employer, constitutes a significant barrier to consumer migration to other institutions that may offer better services or conditions.

The implementation of a simplified mechanism, inspired by Pix, was proposed to facilitate salary portability. A “Salary Key” was suggested

as a practical solution, enabling consumers to easily choose the institution where they wish to receive their salaries. However, it was discussed that imposing a specific payment model transcends the authority of the financial regulator, also being a decision for employers.

During the meeting, it was observed that, when implemented, portability directly contributed to the reduction of interest rates, especially in modalities such as “quasi-consigned,” where the financial institution, even without formal collateral, gains greater ease in collection by identifying the salary flow of the client. Such a mechanism creates a conducive environment for reducing the cost of credit, serving as a viable alternative to traditional payroll-deductible operations, especially for segments of the population that do not have direct access to this modality.

Moreover, the importance of consumer empowerment was highlighted, noting that having the autonomy to choose the institution where they wish to receive their salary strengthens their bargaining power in relationships with financial institutions. This empowerment is particularly relevant in

⁴⁸CMN Resolution No. 5,058, of December 15, 2002. Available at: <https://www.bcb.gov.br/estabilidadefinanceira/exibenormativo?tipo=Resolu%C3%A7%C3%A3o%20CMN&numero=5058>.

⁴⁹Art. 7, Res. No. 5,058/2021.

⁵⁰BCB Resolution No. 284, of January 4, 2023. Available at: <https://www.bcb.gov.br/estabilidadefinanceira/exibenormativo?tipo=Resolu%C3%A7%C3%A3o%20BCB&numero=284>.

a market characterized by information and power asymmetries, allowing the consumer to opt for the institution that offers better service conditions and costs. The expansion of this autonomy, it is argued, generates competitive pressure on incumbent institutions, encouraging the improvement of services offered and the reduction of practiced rates.

An additional point emphasized was the consumer's financial organization. The salary portability process, by facilitating the centralization of financial resources in a single institution chosen by the client, allows greater control over their finances. This aspect was noted as particularly relevant for workers who, throughout their careers, accumulate open accounts in different institutions due to the obligatory linking to banks chosen by employers.

A notable result from research conducted by Zetta, in partnership with Datafolha, demonstrated that, despite its potential advantages, salary portability remains relatively unknown and underutilized in Brazil. The data revealed that only 10% of the banked population attempted to carry out salary portability, while 53% of interviewees stated they had not chosen the institution where they receive their salaries⁵¹. Furthermore, about 50% of those interviewed considered the portability process complex, citing bureaucracy and the delay in approval as the main difficulties faced.

It was emphasized that the current process, although regulated, has not kept pace with technological advancements in recent years, remaining marked by operational inefficiencies.

An additional issue raised concerns the Worker Food Program (PAT), which, despite its social relevance, presents significant challenges for supervision and regulation. The Worker Food

Program (PAT) was established by Law No. 6,321, of April 14, 1976, and is currently regulated by Decree No. 10,584, of November 10, 2021, in addition to complementary instructions determined by two regulations, MTP/GM Ordinance No. 672, of November 8, 2021, and MTP Normative Instruction No. 2, of November 8, 2021⁵².

This is a Federal Government program aimed at improving the nutritional status of workers, promoting their health, and preventing occupational diseases⁵³. The management of this program is jointly conducted by the Ministry of Labor and Social Security, the Special Secretariat of the Federal Revenue of Brazil of the Ministry of Economy, and the Ministry of Health⁵⁴.

The complexity of the Worker Food Program (PAT), involving hundreds of companies in closed arrangements, was noted as a factor hindering the implementation of an efficient regulatory model. Additionally, it was mentioned that the Central Bank of Brazil (BCB) has prioritized resources for the supervision of large-scale economic arrangements, such as major payment systems.

Moreover, the necessity for interministerial coordination was highlighted, involving the Ministry of Finance and other agencies, to address issues such as interoperability, the regulation of benefits, and the integration of payment systems with public platforms like FGTS and INSS. Although these initiatives are desirable, they rely on an overall effort that will eventually fall under the exclusive competence of the Central Bank.

⁵¹ZETTA. Portability Overview. Available at: <https://somozetta.org.br/wp-content/uploads/2023/04/Zetta-Panorama-da-Portabilidade-desktop.pdf>. Accessed on: Dec 17, 2024.

⁵²For more information about PAT, see: https://www.gov.br/trabalho-e-emprego/pt-br/servicos/empregador/programa-de-alimentacao-do-trabalhador-pat/faq-atualizacao-cgsst_ago23.pdf.

⁵³Art. 139, MTP/GM Ordinance No. 672/2021. Available at: https://www.normaslegais.com.br/legislacao/portaria672_2021.htm.

⁵⁴Art. 167, Decree No. 10,584/2021.

Portability, Interoperability, and the Role of the Central Bank

The discussion on portability in the Brazilian financial system, especially regarding aspects related to credit and salary, highlighted structural and policy issues that reduce the efficiency of the current model. Throughout the discussions, interoperability and the internal restrictions of the Central Bank (BCB) emerged as central themes, underscoring the need for reforms and innovations to tackle these challenges.

Interoperability has been identified as one of the main obstacles to the expansion of portability. This concept refers to the ability of different financial systems and arrangements, whether open or closed, to operate in an integrated manner. In practice, the lack of interoperability creates barriers between business models adopted by incumbents (well-established large institutions) and new entrants (digital financial institutions and fintechs).

One of the central aspects mentioned was the difficulty of reconciling divergent interests between distinct business models, especially between incumbents and new entrants. Interoperability between closed payment arrangements and open arrangements was cited as a major challenge. Discrepancies in terms of governance, technological infrastructure, and market practices make integration complex. It was suggested that open arrangements could not only facilitate portability but also enhance competition in the market.

Furthermore, the fragmentation in local payment arrangements was mentioned, which hinders interoperability in regions less integrated into the National Financial System. An example cited was the case of regional players with significant local influence, who have distinct practices and often incompatible views with the large national arrangements.

The lessons learned from the regulation of credit portability were shared, along with the challenges arising from the activities of banking correspondents in areas such as payroll loans. This model, despite pushing for the initial adoption of portability, led to adverse practices, such as the extension of payment terms that resulted in devalued guarantees and, consequently, an increase in default risk.

Additionally, it was pointed out that difficulties in pricing the reimbursement of origination costs (RCO) continue to be a relevant obstacle, especially in the housing credit segment, due to the long-term nature and high costs associated with this type of operation.

The limitation of personnel at the Central Bank was also discussed, which faces growing challenges in dealing with an increasingly broad and complex agenda. The BCB lost about a third of its employees in the last ten years, hampering the effective supervision of initiatives like portability and new payment arrangements. Moreover, the aging of the technical staff and the lack of regular replacement of professionals compromise the ability to implement innovative projects.

It was suggested that the legal framework of the Central Bank, currently structured as an autarchy, could be revised to a more flexible structure, like a public corporation. This would allow greater financial autonomy and the ability to align more closely with the growing demands of the modern financial market.

Regarding the financial market infrastructure, a public hearing was recently approved to debate the bill 2,926/2023⁵⁵, which addresses institutions operating market infrastructures within the Brazilian Payments System.

⁵⁵Available at: <https://camara.leg.br/proposicoesWeb/fichadetramitacao?idProposicao=2367423>.

Portability is managed in two stages: information processing (carried out by Nuclea) and fund transfer (conducted by STR and also managed by Nuclea). Questions were raised about potential improvements to this information processing. Additionally, it was questioned how the Central Bank could optimize market infrastructure oversight, for example, by requiring infrastructure to adhere to the SPI.

The debate highlighted that although portability is a powerful tool for fostering competition and financial inclusion, it still faces structural, operational, and political barriers. The BCB reiterated its commitment to acting as a facilitator but highlighted its operational limitations, emphasizing the need for interinstitutional partnerships to achieve effective results.

Finally, the importance of aligning portability initiatives with the broader technological and regulatory advancements in the financial system, such as Open Finance and Pix, was reaffirmed. The pursuit of simplification and interoperability remains a priority in future agendas, with public hearings and new studies planned to deepen the debates on the topic.

SESSION 2

PORTABILITY IN THE CREDIT AND GUARANTEES MARKET

The second session of the 17th NEASF Meeting delved deeply into the issue of portability in the credit and guarantees market, contextualizing historical advancements, operational challenges, and future prospects.

Credit portability was initially regulated by CMN Resolution No. 3,401/2006, which mandated that financial institutions provide registration information, with the client's authorization, to facilitate the transfer of credit contracts. However, the operational model at that time caused significant obstacles. Consumers who settled their credit operations faced bureaucracy to obtain information from the original institutions, which, in practice, resulted in the creation of new contracts, burdening them with taxes such as the Tax on Financial Operations (IOF).

In 2013, Resolution No. 4,292 restructured the process, creating a more agile and centralized system for information exchange⁵⁶. Market self-regulation, led by institutions like ABBC, Febraban, and ABECIP, resulted in the creation of the Credit Transfer Center (CTC), operated by what was then the Interbank Payments Chamber (CIP), today Nuclea⁵⁷. This infrastructure allowed consumers to seek credit portability directly at new institutions without the need for bureaucratic intermediaries, through the CTC⁵⁸.

Since its inception in 2014, credit portability in Brazil has evolved from a rudimentary model to a functional system that benefits consumers seeking better financial conditions. At the time, the main goal was to eliminate consumer dependency on the originating bank for obtaining the necessary information to transfer contracts. One of the main initial challenges was establishing an operational infrastructure that would allow for the secure and agile exchange of information, replacing manual processes and avoiding duplicate taxes, such as the Brazilian Tax on Financial Operations (IOF).

Despite regulatory progress, the settlement of operations continued to be carried out through the Electronic Transfer of Available Funds (TED) via the Reserve Transfer System (STR), given the Central Bank's demand for a form of centralized control. In the current context, there is potential for increased efficiency through the Pix system, although its current design does not fully meet the settlement requirements between financial institutions.

Even though portability has fulfilled its initial purpose, structural and operational obstacles have emerged over time. The "2020 Banking Economy Report" published by BCB indicates that 99% of portability operations are concentrated in payroll loan market transactions⁵⁹. Historically, banking

⁵⁶CENTRAL BANK OF BRAZIL. Banking Economy Report 2020. Box 2. Available at: https://www.bcb.gov.br/content/publicacoes/Documents/reb/boxesreb2020/boxe_2_evolucao_portabilidade_credito_brasil.pdf

⁵⁷FEBRABAN. Convention for self-regulation of credit portability operations carried out by natural persons. FB-169/2014. Available at: <https://cmsarquivos.febraban.org.br/Arquivos/documentos/PDF/Conven%C3%A7%C3%A3o%20-%20Portabilidade.pdf>

⁵⁸NUCLEA. Credit transfer center. Homepage. Available at: <https://www.nuclea.com.br/central-de-transferencia-de-credito/>. Accessed on 11/14/2023.

⁵⁹CENTRAL BANK OF BRAZIL. Banking Economy Report 2020. Box 2. Available at: https://www.bcb.gov.br/content/publicacoes/Documents/reb/boxesreb2020/boxe_2_evolucao_portabilidade_credito_brasil.pdf

correspondents have played a significant role in this segment, but adverse practices, such as indiscriminate sending of portability requests, have compromised the system's efficiency.

Changes to the remuneration of correspondents, implemented in 2018, significantly reduced these problems. The commission became based on the duration of the contract rather than merely the volume of operations performed, discouraging predatory behavior⁶⁰. As a result, an 80% decline in the volume of loans intermediated by banking correspondents was observed, according to data from the Association of Banking Correspondents in the Country (Ancorp)⁶¹.

Nonetheless, challenges remain, such as operational costs associated with Operational Cost Reimbursement (RCO). This cost, determined by consultancies hired by industry associations, has been identified as an element that can render portability requests unfeasible in certain situations.

Moreover, operational bottlenecks continue to burden the system and compromise the user experience. A notable example is the manual process of recording and noting payroll loan margins, which not only increases operational costs for financial institutions but also poses risks of unfair competition between banks.

The modernization of the portability system has been a priority. For example, the potential for automation in the portability process of margins managed by the INSS has been highlighted. Currently, financial institutions must contact DataPrev manually, which generates additional costs and operational risks. The role of Nuclea as an automated intermediary in this process could bring significant efficiency by reducing back-

office costs and eliminating manual interventions. Another discussed proposal is the standardization of error codes in portability. This measure would allow the automation of "recalls" of failed requests, optimizing the process and increasing effectiveness rates.

Subsequently, it was emphasized that, despite the realization of the current credit portability system being around 37%⁶², there might be a failure in terms of its dissemination, particularly concerning the possibility of portability not only for individuals but also for businesses, which could impair its maximum utilization. This failure in dissemination was attributed to conflicting interests by institutions with high rates due to defects in market competition.

Salary portability, although functional, faces criticism regarding deadlines and documentation requirements, such as the mandatory inclusion of CPF or CNPJ from the paying source. These requirements, initially implemented to prevent fraud, are considered excessive in the current context, where more advanced technological mechanisms could mitigate risks more efficiently.

On the other hand, it was noted that the current deadline, although considered long by some, serves the primary client objective, which is ensuring the receipt of the next salary at the new financial institution. The instantaneous nature of salary portability was seen as a desirable advancement, but not essential in the short term, given the marginal cost-benefit of this change for consumers.

There was consensus among participants that the evolution of portability depends not only on technological advancements but also on regulatory and educational adjustments that can enhance the reach and transparency of

⁶⁰MARQUES, Felipe. Change in commission paid by banks puts 'folders' in check. Valor Econômico, São Paulo. Published on 09/18/2013. Accessed on 11/14/2023. Available at: <https://valor.globo.com/financas/noticia/2013/09/18/mudanca-na-comissao-paga-por-bancos-poe-pastinhas-em-xeque.ghtml?ixzz2fFqUJaP18/09/2013%20%C3%A0s%2000h00>

⁶¹LOPES, Fabiana. Correspondent wants change in rules. Valor Econômico, São Paulo. Published on 07/03/2014. Accessed on 11/14/2023. Available at: <https://valor.globo.com/financas/noticia/2014/07/03/correspondente-quer-mudanca-nas-regras.ghtml>

⁶²Regarding the 1st semester of 2022. Source: ZETTA. Portability Overview. P. 63. Available at: <https://somoszetta.org.br/wp-content/uploads/2023/04/Zetta-Panorama-da-Portabilidade-desktop.pdf>

the system. Collective effort and collaboration between the market, regulators, and infrastructure providers remain key elements for the continued success of this initiative.

Does Credit Portability Promote Competitiveness?

Another topic discussed was the impact of credit portability on banking competition. The debate was guided by an empirical study on the portability of credit use and its effects on competition⁶³. An empirical study was presented on the impacts of portability in payroll-deductible loans, highlighting the benefits observed in municipalities with greater banking competition and the differentiated effects for retirees and public servants, also emphasizing inequalities in access to more advantageous conditions.

As seen, in December 2013, Brazil's Central Bank altered the regulatory framework for the portability of credit operations through BCB Resolution No. 4,292/2013⁶⁴. The resolution aimed to facilitate credit portability by establishing transparent and standardized procedures, such as the mandatory use⁶⁵ of infrastructure authorized by the Central Bank for the exchange of credit information between financial institutions⁶⁶. The regulation also imposed deadlines for institutions to provide credit information and ensured that borrowers could not be charged costs related to portability⁶⁷.

Although BCB Resolution No. 4,292/2013 was revoked by CMN Resolution No. 5,057/2022⁶⁸, effective from May 1, 2023, the study presents evidence that the institutional changes implemented by the Central Bank, starting in 2014, in credit portability, increased the volume of credit and reduced interest rates for certain types of loans.

The paper also highlights that credit portability allows for margin competition in pricing between banks. Credit portability enables the exchange of information between institutions, whereby, for a credit transfer to occur, the borrower must present the operation data to the new financial institution. In this sense, the more information a borrower or institution has, the more precise the definition of client characteristics related to risk and return profiles will be.

Thus, considering that portability facilitates the transfer of interbank credit, it is expected that the opportunity cost of changing financial institutions will decrease, increasing competition in this market and reducing interest rates and

⁶³BONOMO, Marco; CAVALCANTI, Tiago; CHERTMAN, Fernando; FANTINATTI, Amanda. Does Loan Portability Promote Bank Competition? In: 44th Meeting of the Brazilian Econometric Society - Gran Mareiro Hotel, Fortaleza - CE, 2023. Available at: <https://doity.com.br/anais/44ebe/trabalho/274830>. Accessed on: Oct 19, 2023.

⁶⁴Available at: <https://www.bcb.gov.br/estabilidadefinanceira/exibenormativo?tipo=Resolu%C3%A7%C3%A3o&numero=4292>. Accessed on: Oct 19, 2023.

⁶⁵"Art. 2 The transfer of credit operations between financial institutions, at the request of the debtor, must be carried out as provided in this Resolution, and the use of alternative procedures aimed at obtaining a result similar to portability is prohibited."

⁶⁶"Art. 4 The exchange of information between the original and proposing creditor institutions must be carried out electronically, through an asset registration system authorized by the Central Bank of Brazil."

⁶⁷"Art. 10 The costs related to the exchange of information and the transfer of resources between the proposing and original creditor institutions cannot be passed on to the debtor."

⁶⁸Available at: <https://www.bcb.gov.br/estabilidadefinanceira/exibenormativo?tipo=Resolu%C3%A7%C3%A3o%20CMN&numero=5057>. Accessed on: Oct 19, 2023.

spreads. Similarly, it is hoped that measures promoting banking competition will contribute to the expansion of the credit market and, consequently, to economic activity⁶⁹.

In this context, the question addressed by the study is whether competition among banks in the payroll loan market increased with the Central Bank of Brazil's resolution. According to the study, addressing the issue of how to promote competition in the banking sector is particularly relevant for countries where spreads are higher and credit penetration is lower. Both of these factors are likely related to the market power of financial institutions. The paper discussed, therefore, seeks to draw causal evidence based on the approval of Central Bank BCB Resolution No. 4,292/2013 as a source of exogenous variation in competition among banks.

To this end, the study investigated the database on consigned credit portability from 2012 to 2016, aiming to understand the effects of regulatory measures on this credit line, in particular, whether these measures, in some form, enhanced competition. It was indicated that during the period analyzed by the study, the type of credit transferred was predominantly payroll loans, reaching levels of 95%, 94%, 95.6%, 98.8%, and 99.8%. The data used in the study come from:

Credit Information System (SCR) of the Central Bank, the primary source of data, considering its inclusion of details on specific credits, interest rates, amounts, due dates, credit risks, among other information; Monthly Banking Statistics by Municipality (ESTBAN), containing the balance of each banking conglomerate, along with the number of branches per municipality; and Annual Social Information Report (RAIS), the Unified Registry (CadÚnico), and the census

prepared by the Brazilian Institute of Geography and Statistics (IBGE).

In methodological terms, it was noted that the study compared municipalities with two or more banks with those having only one bank. It was noted that the authors started from the viewpoint that a Municipality is a credit market and, therefore, it is assumed that portability should have enhanced credit conditions, compared to Municipalities where there is no interbank competition.

It was highlighted that, in theory, Municipalities with competition have lower rates and a greater increase in the supply of credit, compared to Municipalities without banking competition. In this context, it was pointed out that comparing data from 2012 to 2016 would allow verification of whether this effect indeed occurred, considering that Resolution BCB No. 4,292 was approved in 2013 and took effect on May 5, 2014. The study hypothesis, therefore, is that individual credit borrowers in competitive municipalities saw interest rate reductions and increased credit quantity compared to borrowers in non-competitive municipalities.

It was discussed that within this dual comparison strategy, the treatment group consists of residents in competitive municipalities, having two or more different banks. In turn, the control group consists of individuals residing in municipalities without competition, having at most one bank. It was mentioned that this empirical research strategy is known in applied microeconomics as difference-in-differences (DiD), as it is based on the differences observed in two groups, before and after the exogenous event.

The DiD strategy involves identifying a specific intervention (exogenous event), which can

⁶⁹BONOMO, Marco; CAVALCANTI, Tiago; CHERTMAN, Fernando; FANTINATTI, Amanda. Does Loan Portability Promote Bank Competition? In: 44th Meeting of the Brazilian Econometric Society - Gran Mareiro Hotel, Fortaleza - CE, 2023. p. 2. Available at: <https://doity.com.br/anais/44ebe/trabalho/274830>. Accessed on: Oct 19, 2023.

be, for example, the approval of a regulation. Subsequently, it analyzes the difference in data from a group affected by the intervention, before and after the event, as well as the difference in data from a group not affected by the intervention, also before and after the event. In the end, differences within each group are compared to verify causal relationships that may be attributed to the exogenous event⁷⁰.

In other words, the study aimed to understand the effects of banking competition, investigating how the quantity and price of credit altered following Resolution BCB No. 4,292/2013. It is a unique identity effect, as once the banking competition is not exogenous to these parameters (quantity and price of credit). The paper cites as an example a productivity shock in the market. Such a shock would increase the demand for loans and make the market more attractive to potential stakeholders, which would alter the behavior of institutions and affect competition.

The research sought to overcome this identification challenge by utilizing Resolution BCB No. 4,292/2013 as a source of exogenous variation in local competition and exploiting the heterogeneous exposure of this episode between municipalities. To this end, a DiD research design was used to estimate the effect of banking competition by comparing the results of the treatment group (markets exposed to portability facilitation due to the resolution's approval) with the control group (not exposed to facilitation), before and after the enforcement of Resolution BCB No. 4,292/2013.

The assumption that identifies the estimates of the study is one of parallel trends, i.e., in the absence of the credit portability resolution, the treatment and control groups would have

parallel results, conditioned by the market characteristics over time.

In this way, the equation presented by the study is capable of estimating a delta that will capture the DiD. In the DiD model equation used by the paper, the treat represents whether the individual is in a Municipality with more than two banks, and the post is a time marker indicating the moment when directed credit occurred.

$$y_{m,t} = \gamma_m + \gamma_t + \beta X_{m,t} + \delta TREAT_{m,t} \times POST_t + \varepsilon_{m,t}$$

The sample also reveals that directed credit is mostly for public employees and retirees, with the participation of retired public employees being overwhelming in the ported credit. For this reason, the study focuses on these groups of individuals. It was noted that the study revealed that interest rates were reduced by 0.867% for ported credits in Municipalities with competition. This percentage corresponds to about 5% of the banking spread in these operations.

Additionally, it was indicated that the study analyzed the effects of portability in relation to banking concentration. This means that, in addition to the competition parameter, which corresponds to the difference between municipalities with more than two banks and municipalities with only one bank, the study considered an additional competition factor, which is banking concentration, given that certain municipalities may have more or fewer banks during the period covered by the data.

Using the HHI (Herfindahl-Hirschman Index)⁷¹ to measure banking concentration, it was noted that the result is even stronger in municipalities with lower banking concentration. In this case,

⁷⁰Marianne Bertrand, Esther Duflo, and Sendhil Mullainathan cite the following example: "to identify the incentive effects of social security, one could start by isolating the states that increased unemployment insurance benefits. Then, we would compare the changes in the duration of unemployment between residents of the states that increased benefits and residents of the states that did not increase benefits" (BERTRAND, Marianne; DUFLO, Esther; MULLAINATHAN, Sendhil. How much should we trust differences-in-differences estimates? National Bureau of Economic Research, Working Paper 8841, 2002. p. 2).

⁷¹The HHI is traditionally used to measure market concentration. In summary, the index measures the size of firms in relation to the size of the industry in which they operate and the degree of competitiveness (LISTON-HEYES, Catherine; PILKINGTON, Alan. Incentive concentration in the production of green technology: a comparative analysis of fuel cell patents. Science and Public Policy, v. 31, no. 1, 2004. p.16).

the effect was not only on the interest rate but also on the credit supply, resulting in a 3.3 percentage point increase in the credit supply for individuals in municipalities with competition, due to the measures facilitating portability.

The study also addressed the heterogeneity of results among individuals. This is because the result for retirees corresponded to a 1.263% drop in the interest rate. For public employees, the rate reduction was 3.8%, which represents a much stronger result for public employees than for retirees. The same result is found in the credit supply, where the effect is greater for public employees. It was noted that the difference may be due to a series of factors, such as mobility and negotiation capacity.

Comparing federal, state, and municipal public employees, it is found that the effects of portability in reducing the interest rate benefited federal public employees to a greater extent. For this group, the rate drop was 3.2%, while state and municipal public employees benefited from a 2.1% reduction. Among these groups, the increase in credit supply is similar, with the most important effect being observed in the interest rate.

Another interesting heterogeneity of the study is income. It was discussed that the effects of portability are different among people with different incomes. The interest rate drop for low-income people was 1.184%, a percentage that rises to 2.49% for middle- or high-income people.

On this topic, it was speculated that the data could be interpreted in various ways, from a lower level of financial education to reduced levels of market power or individuals targeted by banks. The effect on loan supply was also greater for middle- or high-income people compared to low-income people.

Regarding the robustness of the study, it was noted that the control group could include an individual living in a municipality with no banks. This individual could be taking credit in a neighboring municipality that may have more than two banks. This could bias the study, considering that this individual, despite residing in a municipality without banks, would be part of a competitive market. Therefore, municipalities with no bank branches or banking correspondents were excluded from the control group.

After conducting this robustness test, the study's results remain significant, but the magnitude is slightly smaller in the case of interest rates. For credit supply, the magnitude remains similar. Another robustness test conducted was the exclusion of municipalities with more than two hundred thousand inhabitants, which may have a completely different credit market dynamic. Additionally, a test was conducted with a control group of at most four banks, as well as changing the treatment date. In all cases, the results were consistent with those found before the robustness tests. It was emphasized that the results also remained after the placebo test.

In conclusion, it was discussed that the institutional measures on credit portability, based on BCB Resolution No. 4,292/2013, reduced the interest rate by 0.867%, corresponding to a spread of 5%. The results confirmed that the approval of the resolution had a positive effect on the increase in the volume of payroll loans, as well as on the reduction of interest rates, for Municipalities that had more than two different bank branches, that is, for borrowers who resided in locations that had the option to transfer the credit to another institution.

The results vary according to the banking concentration in the city, according to the HHI index, with cities with greater competition

experiencing greater effects on the rate, as well as on credit supply. The results are more pronounced for public employees, notably federal ones⁷², compared to retirees, as well as for middle- and high-income borrowers compared to low-income borrowers.

It was commented that the period covered by the study on competition in the credit market and portability corresponds to the beginning of the consolidation of digital institutions, which fall outside the identification strategy used by the authors of the paper, since municipalities with only one bank branch may have users of digital institutions. On this matter, it was suggested that the scenario presented by the study was not substantially altered. This is because the study focuses on payroll loans, which are still promoted by 'folders' that is, by correspondents.

Regarding the difference in the reduction of interest rates observed between federal employees and retirees, it was commented that this can be attributed to the fact that employees directly approach the institution without the intermediation of 'folders', and are seeking an effective reduction in the rate through portability, while retirees are looking to increase their payment margin and reduce the installment amounts.

It was suggested that credit portability happens in terms of new entrant institutions, which have lower funding costs for incumbent institutions, which have higher funding costs, thereby potentially increasing banking concentration. However, the approach taken in the paper does not seem to support this claim, considering that institutions that mostly receive credit

portability are not necessarily incumbent ones, but rather institutions focused on negotiating payroll-deductible loans, that is, focused on this niche market.

It was mentioned that the majority of the profitability in credit portability is not consignable, as it is a low-risk credit line, considering that payment is made directly from the payroll. Thus, there would be a correlation between portability and the risk of the credit involved (special check, revolving credit, *desenrola* (overdraft), among others).

On March 10, 2023, the House of Representatives approved Bill No. 4,188/2021⁷³, resulting in Law No. 14,711/2023, known as the legal framework for loan guarantees. Among the approved changes is the possibility of using extrajudicial measures, through notary offices, for the recovery of defaulted credit, aiming to reduce transaction costs associated with legal demands.

The measure allows the creditor to make discount proposals through protest notaries, aiming to recover the credit. Communication with the debtor can be made by simple letter, email, or instant messaging application, and may provide a period of up to thirty days for acceptance.

In this sense, the new framework creates the figure of the guarantee agent, who will be appointed by the creditor and will act in their own name and for the benefit of the creditors. Additionally, the framework provides that a property being acquired with a fiduciary alienation instrument can be offered as collateral, with the fiduciary alienation having priority in the event of an execution⁷⁴.

⁷²On 10/31/2023, Decree No. 11,761 was published, regulating the rules for payroll loans for federal executive branch employees. This decree amends Article 5 of Decree No. 8,690/2016, allowing the payroll-deductible margin for federal public employees to reach 45%, which, considering the conclusions of the discussed paper, could expand the portability of payroll loans.

⁷³Available at: https://www25.senado.leg.br/web/atividade/materias/-/materia/154430?_gl=1*1rcsagn*_ga*NDcyNTAzMDM3LjE2NjMyNjI5NTk.*_ga_CW3ZH25XMK*MTY5ODQ5NDUyOC4xMS4wLjE2OTg0OTQ1MjguMC4wLjA. Accessed on: Oct 28, 2023.

⁷⁴For the summary of the main changes: BRAZIL. Senate. Legal framework for loan guarantees proceeds to sanction. Senate Agency, 10/05/2023. Available at: <https://www12.senado.leg.br/noticias/materias/2023/10/05/marco-legal-das-garantias-de-emprestimo-segue-para-sancao>. Accessed on: Oct 28, 2023.

The main objective cited for the approval of the guarantee framework is to reduce the risk of default by creating mechanisms that encourage payment and renegotiation. Other mentioned objectives include the reduction of credit costs and interest rates, as well as the expansion of access to credit. Thus, if the approved regulation actually creates robust guarantees, portability could be expanded, once the correlation between the operated transactions and the risk involved in the loan is verified.

Finally, the need for greater data centralization in the Pix model was discussed to promote efficiency and inclusion. Concerns were also raised about the inequality in the credit market, with suggestions for in-depth studies to measure the effects of payroll portability and the suitability of technical solutions to meet market demands and benefit end consumers.

