

COFECE's Preliminary Investigative Opinion establishes that there are not effective competition conditions in the card payment system in the Mexican territory

- *COFECE observed the probable existence of barriers to competition that prevent the entry and increase the costs of new participants in this market, and moreover, that hinder innovation, investment to address operational and security problems, and increase the costs for banks that affiliate businesses.*
- *The lack of competition has led to high fees that hinder bancarization of businesses that could accept card payments.*
- *The preliminary investigative opinion proposes, among other measures, that banks divest their shares in Prosa and E-Global.*
- *In the following stage of this process, interested economic agents may present statements and arguments they deem pertinent, in order for the Board of the Commission to issue a final resolution for the case.*

Mexico City, December 16, 2020.- The Investigative Authority of the Mexican Federal Economic Competition Commission (COFECE or Commission) established that there are no competition conditions in the card payments network in Mexico, due to the probable existence of barriers to competition that generate costs and anticompetitive requirements for the entry of new participants into this market.

Card payment systems allow the transfer of money between cardholders and businesses for the purchase of goods and services. These two groups of users require connecting to a card payment network in which the transaction is processed. To do this, the buyer needs a card provided by an issuing bank that allows her/him to have at her/his disposal resources; and at the same time, the business needs a bank that gives it access to the network and to the technology to accept cards as a form of payment.

In this network participate banks that issue cards and/or affiliate businesses, the card brand holders (for example, *Visa* and *Mastercard*) and the clearinghouses that process the transaction, which in Mexico are two, *E-Global* and *Prosa*. The lack of competition conditions in the services provided by this network affects consumers and businesses, hindering bancarization and financial inclusion.



After assessing the competition conditions, the main findings of the Investigative Authority are:

- a. The existence of a sole card payment network that applies rules that preclude coexistence with other payment networks with lower fees, better services and greater security in the transactions.
- b. The existence of anticompetitive requirements that increase entry costs for new participants into the existing payment network or to a new one.
- c. Eight banks are co-owners of the clearinghouses in charge of processing the operations in the payment network, which allows them to have information that other banks do not, and implement commercial schemes that grant them advantages with respect to their competitors.
- d. In contrast to other countries, the obligation to guarantee the daily liquidity of the transactions falls on the brand holders and not on the clearinghouses, which are the ones that process the payments and know the risks of each operation. This, on the one hand, disincentivizes the entry of other card brands, and on the other, by not having this obligation, clearinghouses stop investing and monitoring the system in order to detect threats, which generates risks to the security of the payment network.

According to the Preliminary Investigative Opinion, the foregoing generates the following anticompetitive effects:

1. **Lack of security, technology and innovation** that results in frequent interruptions in the payment network that prevent transactions from being carried out and generates sales losses for businesses. Likewise, in the absence of investment, some of the technological standards that allow to significantly reduce the levels of card fraud have not been fully implemented in Mexico for more than 15 years.
2. **Regulatory obstacles** for new clearinghouses with different payment networks, since the authorization period is up to four years, and several requirements are uncertain; in addition, a certification issued by competitors is required, who have no incentives to do so.
3. **Overprices** in transactions carried out in the payment network. The high fees charged by banks to businesses for receiving a card payment means that few businesses are interested in accepting them as payment method, since they must bear this cost.



4. The co-ownership of the shareholder banks in clearinghouses grants them **access to information from other participants, which constitutes an undue advantage**, since they can anticipate and counteract the business strategies of their competitors. Thus, shareholder banks use clearinghouses to operate commercial strategies (for example, purchases with interest-free installments) which would have to be carried out by their commercial division, and not by the clearinghouse.

To eliminate these barriers, the preliminary investigative opinion proposes the divestiture of 51% of the shares of the clearinghouses (*E-Global* and *Prosa*), currently owned by some banks, in addition to recommending the Bank of Mexico and to the National Banking and Securities Commission to eliminate the regulatory obstacles detected, and at the same time to issue regulations that ensure competition.

Shall the Preliminary Investigative Opinion be confirmed concerning the lack of effective competition conditions, benefits would be expected for all participants in the payment network, new entrants and users of the system, which would contribute to a greater bancarization, financial inclusion and formality of the economy.

The extract of the Preliminary Investigative Opinion of file IEBC-005-2018 was published today in the Federal Official Gazette. From this moment, economic agents with an interest in this procedure can present the statements and arguments they deem appropriate, in order for the Board of the Commission to issue the final resolution to this case.

[Read the public version of the Preliminary Investigative Opinion \(in Spanish\)](#)

[Infographic about barriers to competition \(in Spanish\)](#)

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The Federal Economic Competition Commission is responsible for ensuring competition and free market access. In this way, it contributes to consumer welfare and the efficient functioning of the markets. Through its work, COFECE seeks better conditions for consumers, greater output and better services and a “level playing field” for companies.

