



**BANCO CENTRAL DO BRASIL**

# **Correspondents: The Brazilian Case**

Financial infrastructure week - 2011

Rio de Janeiro - RJ

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# what is a correspondent ?

An institution  
licensed by  
Central Bank

Signs a contract with

Third parties  
(companies)  
that deliver  
services on its  
behalf

The network  
management is done  
by the licensed  
institution or  
outsourced to a  
specialized company,  
which will be, in  
some cases, also a  
correspondent

Correspondents  
can “sub”  
contract other  
correspondents  
to deliver the  
financial  
services object  
of the contract  
with the LI

- ✓ Post Office
- ✓ Lottery outlets
- ✓ Supermarkets
- ✓ Pharmacies
- ✓ Other LI's:

notaries, schools,  
gasoline station.

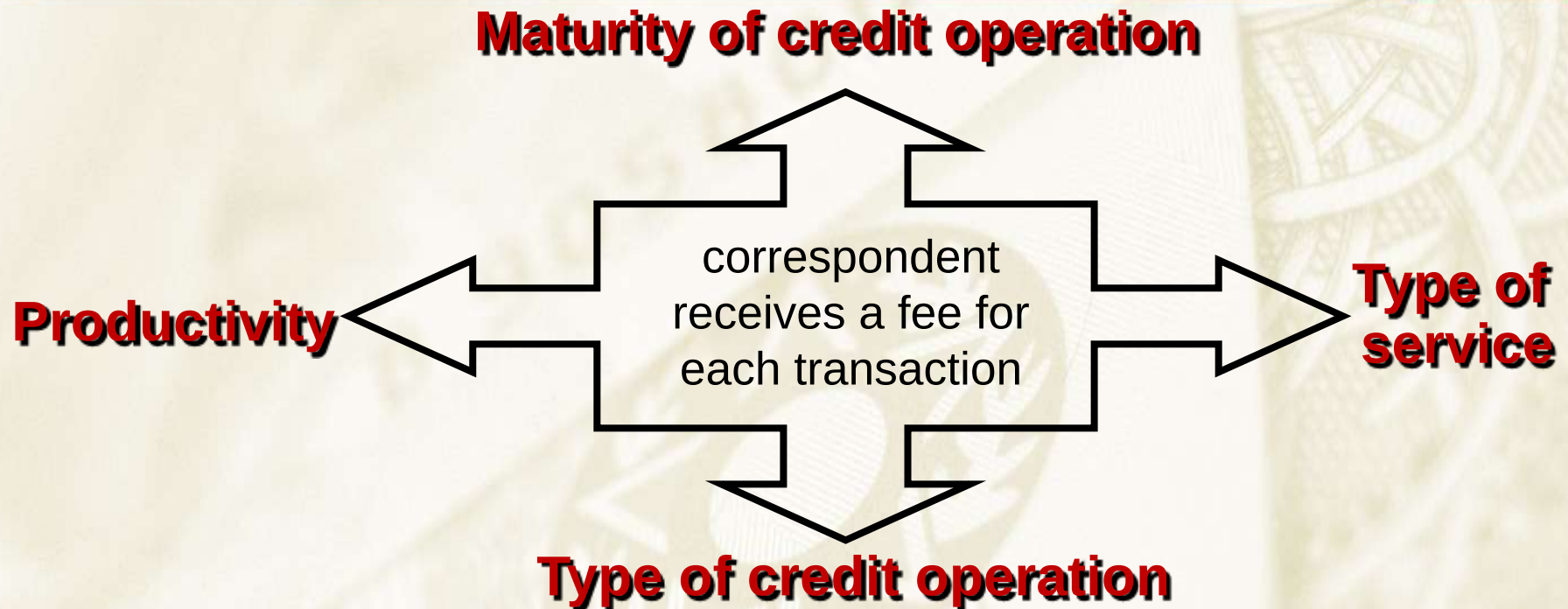
# CORRESPONDENTS– HOW DOES A WITHDRAWAL WORK?

- 1) The client hands his or her bank debit card and inputs the **PIN** number
- 2) The correspondent transmits the authorization request to the bank through a **POS** or other device
- 3) The bank receives request and sends a positive answer back to correspondent
- 4) The correspondent hands cash to the client



The correspondent and the bank are connected real time through dial-up, satellite or wireless connection

# CORRESPONDENTS – OPERATIONAL ASPECTS



LI sets daily operational limits for each correspondent

LI has real time control over correspondent's transactions and can block its operations online.

## Services provided through correspondents

- Receiving and forwarding applications for:
  - check accounts
  - time and savings deposits
  - investment funds
  - credit operations
  - credit cards
- Deposits and withdrawals
- Collection of utility and banking bills
- Payments
- Transferring funds between parties
- Complementary operations

# CORRESPONDENTS – SUPERVISION AND RISKS

**Operational**  
risk is important!

**Legal**  
risk

- Compliance risk
- Settlement risk
- Frauds



Premises Safety  
Requirements

Labor Relations

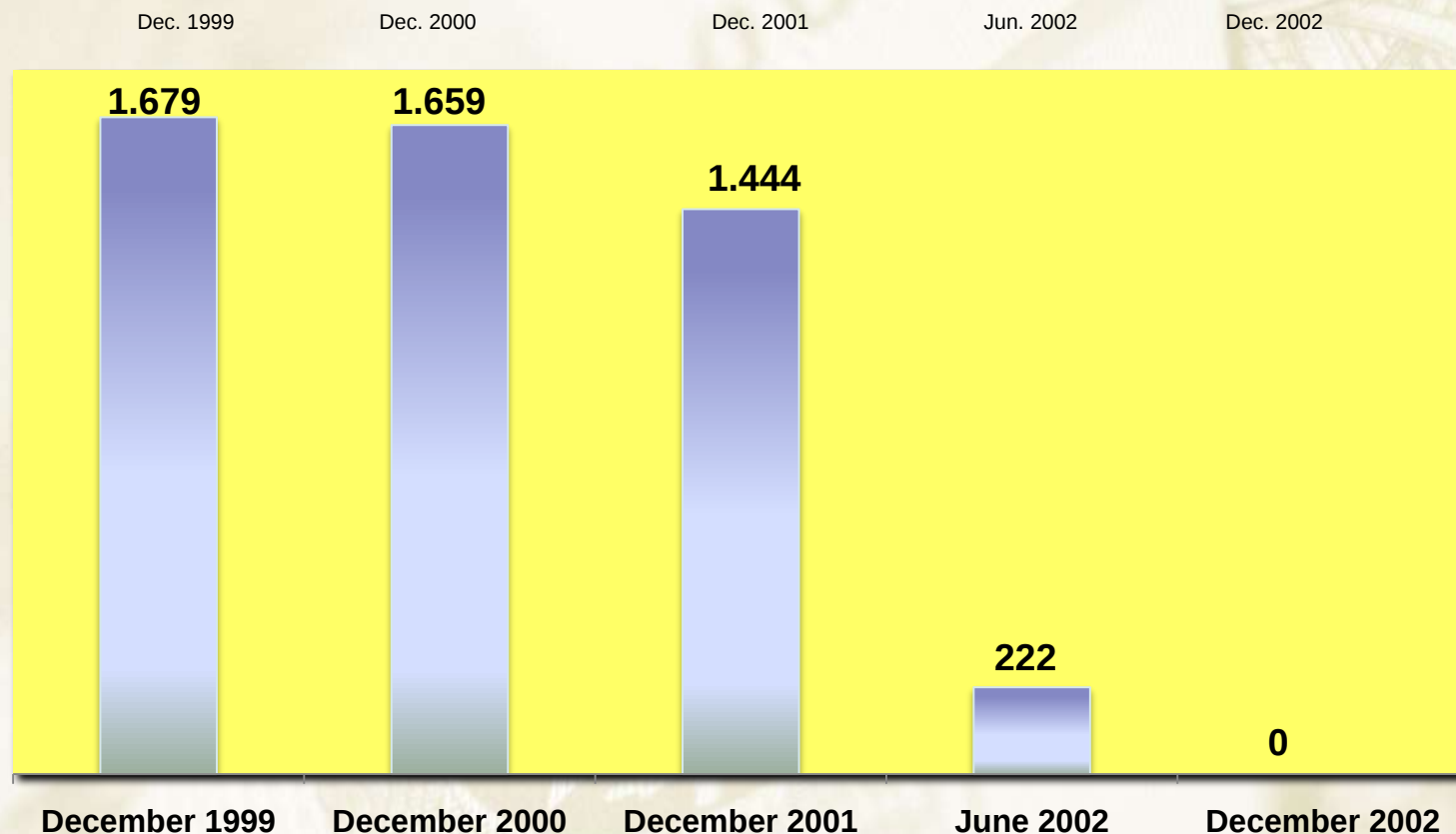
**REPUTATIONAL  
RISK!**

# CORRESPONDENTS – MITIGATING RISKS THROUGH REGULATION

- **Compulsory provisions** in the contracts between the LI and the correspondent
  - LI => **FULL RESPONSIBILITY** for the services, even in the case of total or partial subcontracting
  - Central Bank => **UNRESTRICT ACCESS**, through the contracting institution, to all information, data and documents related to the correspondent, the subcontractor and all the operations performed throughout the correspondents network
- “Correspondent function” cannot be the **main or only business** of the correspondent, when performing services related to accounts, deposits and investment funds
- **Financial adjustments** between the correspondent and the LI to be carried out every 2 business day, at most
- The correspondent must make it clear for the customer that it is acting **on behalf of** the LI



# Municipalities without access to financial services



Fonte: Soares e Melo Sobrinho (2008)

- 5.564 municipalities
- 1.380 municipalities with less than 5.000 inhabitants

# NONBANK RETAIL AGENTS– CURRENT SCENARIO

- Over **150 thousand** correspondents outlets (Feb. 2010).
- In 2009:
  - over **2.6 billion** transactions were carried out through correspondents;
  - main service is collection of utilities and banking bills, accounting for 74% of number of transactions;
  - deposits, withdrawals and loans disbursements generated a financial flow of about **US\$ 73 billion**.



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**Thank You!**