

Banking concentration in Brazil: main points

Bank concentration is a phenomenon of the retention of a large part of a financial system by one or a few institutions. It is considered harmful in terms of the market, restricting competitiveness, and contributing to the phenomenon of unbanked.

In Brazil, there are five major financial institutions that together concentrate around 83% of the financial system. This number places the country in one of the largest banking concentrations in the world. In addition, it is directly linked to the rates of unbanked people in the country for several aspects, such as the interest rates offered by these large banks, which compete very little for the market and do not have the obligation to develop attractive products outside the market. standard they follow.

Negative factors

The issue of a large banking concentration has many negative aspects. According to research, for every five reais handled in Brazil, four are under the responsibility of one of the five largest banks in the country, and the remaining one real is divided between one of the approximately 150 financial institutions that exist outside the universe of large banks.

This high concentration is linked to the high interest rates that exist in the country, related to the difficulty of generating loans to small entrepreneurs and Brazilian families. The Brazilian consumer has few choice alternatives, both in terms of loans and investments and ends up opting for one of the five largest institutions, even with incompatible products, due to the issue of accessibility.

Unbanked phenomenon

A large concentration of the market in terms of bank competitiveness is linked to the phenomenon of unbanked in Brazil. According to research figures, there are about 60 million people who are not linked to any bank. This number represents half of the economically active population. On the other hand, this unbanked population moves about R \$ 665 billion a year, which generates several problems related to unbanked.

This phenomenon weakens the financial system and hinders its growth. With large amounts in circulation and a large part of the population outside the institutions of the financial system, it helps to impact interest rates and impacts the development of the financial system.

Fintechs

Fintechs play an important role in this scenario, that of contributing to unbanked and the quality of services in the market, being compatible with what the population wants and expects from financial institutions and their products offered. As an example, it is possible to highlight the small fees or gratuity for the services, the user's ease of access to communication with the bank, and the easy and fast use of quality service applications and channels that greatly impact the perception of quality of customers and users.

When they appeared in Brazil, fintechs sought to revolutionize the financial system and in a way it has contributed a lot to significant changes, since the big financial institutions started to adjust their relationship and service channels in order to compete with more equality with the revolutions that happened.

Currently, according to research, there is a modest reduction in banking concentration, around 1% from 2018 to the present day. However, it is an advance and is linked in certain aspects to the revolutions proposed and carried out by fintechs and their services.

Open Banking

In this perspective, it is possible to see the Open Banking model as welcome, necessary, and expected. One might think that fintechs paved the way for Open Banking to become a reality in Brazil in the future. There are still many debates on the issue, however in view of the great banking concentration, an open bank perspective will be very welcome, because from the consumer's perspective it is difficult to adapt the products and services of the main financial institutions, and this issue is reflected in the numbers unbanked, where one of the reasons is the incompatibility of customers with the business models of large banks.

Increased competitiveness and the implementation of a more open market is necessary in Brazil to solve the problems that are related to the development of the Brazilian financial system. It is important to highlight that the Central Bank of Brazil agrees and supports the Open Banking initiative in the country, being a great step towards the effectiveness and success of the initiative in the future.