



**ECONOMY** 

# Pix revolution: how instant payment put Brazil at the forefront of global financial innovation

Spearheaded by the Brazilian Central Bank, Pix's launch is an example of how innovation can accelerate financial inclusion and create new consumer segments in a country's economy



JACQUELINE LAFLOUFA 20.JUN.2022 16:02 BRT UPDATED 10.JAN.2023 18:32 BRT

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o you have a cell phone? Great. That's pretty much all you need today to make a payment using Pix, the Brazilian instant payment method that has been widely adopted in the country, especially for smaller amounts and everyday transactions. Pix is now in the daily lives of self-employed workers,



adopt Pix. After all, besides the convenience of having to carry a payment terminal, with Pix they didn't need to worry about transaction fees.

Pix payment happens in a very simple way: one has just to inform a Pix key — which can be a phone number, the equivalent of an ITIN (Individual Taxpayer Identification Number) or an FTIN (Federal Taxpayer Identification Number), an email, or even a QR Code and indicate the amount to be paid. In a matter of seconds, the payer makes the transfer and the amount is instantly deposited into the recipient's account.

The beauty of the process is that it was exactly this kind of ease and inclusion that Pix wanted to offer when it was imagined by the Brazilian Central Bank (BCB) in collaboration with representatives of financial institutions and payment services in Brazil. One of the main premises of Pix was to extend financial inclusion while making it possible to transfer resources from one account to another in a few seconds. An unprecedented payment channel emerged: Pix was incredibly easy to use on mobile phones, allowing users to quit debits in real-time, 24/7, any day of the week.

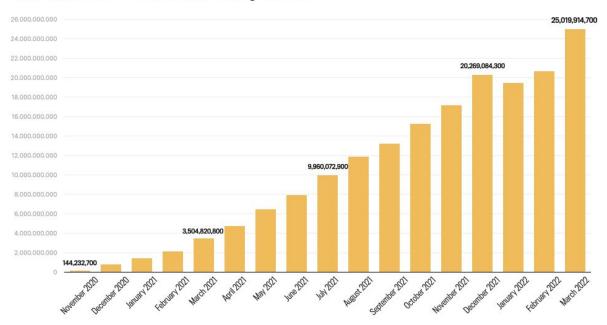
To be able to proceed with the plan of financial inclusion, it was established from the beginning that Pix would be a tax-free transaction for individuals and individual entrepreneurs. They would be able to send and receive values via Pix without paying any fees — those could only be charged to corporate accounts, and the fees would be negotiated directly with their service providers.

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middle of a pandemic, and it quickly became a huge success. In just over a year of operation, the majority (70%) of adult Brazilians had already made a Pix, according to the Brazilian Central Bank. "It would be reductive to say that the pandemic was the key point that made Pix a success, but it certainly acted as a catalyst for the adoption," analyzes João Bragança, an economist and financial market expert at Roland Berger consulting, while mentioning the benefit of being able to make free transactions, without leaving home, in a time of social isolation.

The figures confirm Bragança's vision, and even with the relaxation of social distancing measures, Pix continued to advance vigorously. Until mid-May 2022, Pix had as its flagship the (free) transactions between individuals, although BCB statistics point to strong growth in the usage of Pix also in transactions between merchants and consumers, indicating that businesses were moving to adapt to the new payment method.



## Pix transactions between individuals and businesses increased by 614%

Source: Flourish

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Part of Pix's speed of adoption, according to Bragança, reflects a well-done communication about the product. "Pix's benefits became clear very quickly for most of the public," emphasizes the consultant. In addition to the instantness of receiving money and the savings that were possible by the absence of transaction fees, small entrepreneurs and self-employed professionals also saw an opportunity to reduce costs related to POS terminals and other types of **payments**, such as credit or debit cards. It might seem something small, but it was revolutionary for both the beneficiaries of Pix and also for those who were observing **Pix's** development on the global stage.

"Internationally, Pix is being perceived as a transformation milestone for payment systems. What the Brazilian Central Bank has managed to do is being seen as a reference not only for real-time payments but for the eventual emergence, in a second or third phase of this revolution, of a Digital Real or Digital Euro," says Bragança.

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Anyhow, it's a fact that Pix's ability to revolutionize the financial system in Brazil also has its roots in an important previous Digital Transformation, which made smartphones widely present in the country. Data from the National Telecommunications Agency (ANATEL), reports the existence of more than 258 million smartphones in Brazil in March 2022, an average of more than one phone per person. This high density of phones combined with the arrival of Pix in the apps of banks, fintechs, and other payment services also explains why the vast majority of transactions (98%) have happened on mobile devices, representing about 70% of the

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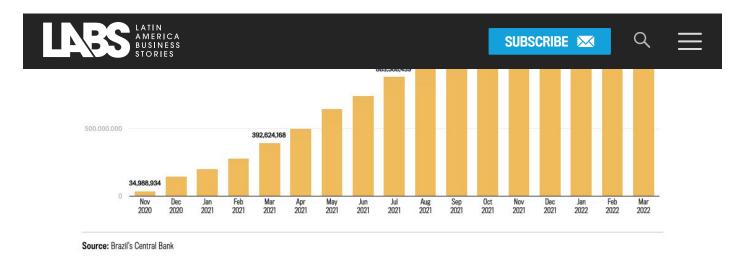


## Impressive growth in just 18 months

Pix's quick adoption rate pressed merchants and businesses to move fast to adapt to the new payment format. Willer Marcondes, a partner and financial services specialist at PwC, explains that this was already expected to happen since the success of a new payment method is directly related not only to its usage but also based on who's offering this option for payments. "There are always two sides: someone who's paying and someone who's receiving. There is no point in being willing to pay using a payment instrument that is not received, as there is no point in offering a payment method that no one wants to use," he summarizes.

The synergy between supply and demand for Pix seems to be aligned. In 2021, the first year of its full operation, Pix presented the highest growth among the payment methods available in Latin America. In the last month of March 2022, the total number of transactions reached a new record, with more than 1.6 billion transactions carried out and more than 438 million Pix keys registered. "These numbers prove the efficiency and acceptance of Pix, which brought convenience and easiness for customers in dayto-day financial transactions," says Walter Faria, deputy director of services of the Brazilian Federation of Banks (Febraban).

# Pix transactions continue to grow since its launch



Considering this kind of growth, it seems undeniable that Pix is a successful case, "both in the light of adoption and of technology used", agrees Lauro Gonzalez, researcher, professor, and coordinator of the Center for Studies in Microfinance and Financial Inclusion of Fundação Getulio Vargas (FGV).

Not even the higher usage rates among individuals destabilize the celebration of the specialists in the sector, who were unanimous in evaluating the adoption till now as a positive sign. "It is important to remember that **Pix** is free for individuals and can have taxes charged between legal entities. Thus, it is natural to expect that growth would be faster among consumers," says Rafaela Nogueira, chief economist at Zetta, an association of technology companies operating in the financial and **payments** sector in **Brazil**.

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In addition to the gratuity that encouraged P2P (person to person) transactions, Pix had its debut at a peak retail moment in Brazil, where from November onwards merchants deal with important shopping events, such as Black Friday and Holidays sales. In that scenario, any kind of adaptation to payments systems could become a big risk for retailers, recalls Ricardo Pandur, Accenture's senior

over, to start making their adjustments," he explains.

Pandur, who has been following the evolution of instant payment systems in European countries such as the UK and Sweden, says Pix has been adopted pretty fast in comparison to countries in the Northern hemisphere. "Pix was the instant payment method that grew the most globally and is already the second-largest in the world in just 1.5 years," points out Accenture's expert. Pix is just behind India, considering the number of users, and the United Kingdom, when considering the volume transacted.

As Pix reaches its second year of full operation by the end of 2022, the expectation is that it will grow among merchants and businesses of various sizes and types, who have been adapting to Pix's instantness. "There are some back-end processes, such as conciliation, settlement, and inventory write-off, which were not ready to be done in real-time," says Pandur, highlighting that payments in credit, debit, and even boleto take longer to be settled. As soon as these processes are adjusted, the greater the impact of financial and consumption inclusion caused by Pix should be.

## A payment framework that seems like public policy

More than an innovative proposal for instant payments, Pix was also designed to function as a tool for financial inclusion, which makes the framework gain public policy contours. According to Gonzalez, who has been following the impact of Pix in the country since its announcement, this happens because payments are part of four financial services considered important for financial inclusion, along with credit, savings, and insurance."There is a relationship between

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such as Pix can contribute in the long term to improve credit and microcredit solutions ", explains the professor.

This is why, in his assessment, it is reasonable to say that Pix ends up having effects similar to a public policy, as it can create improvements to a significant part of the population that used to spend high amounts when making payments. "For those who made larger transactions, the costs were diluted, but they were too high for those who made small transactions. After all, it is one thing to pay BRL 10 in taxes to send BRL 5.000 to another person, and another completely different is to pay BRL 10 in taxes to send BRL 100," Gonzalez exemplifies.

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The savings that were made possible by zeroing out transaction fees were especially important for beneficiaries of income transfer programs, such as Auxílio Brasil (former Bolsa Família). "These resources could be used with less cost via Pix, which probably had a positive effect on the well-being of the low-income population since smaller transactions strongly characterize their daily lives," recalls Gonzalez. According to aggregated data coming from Zetta, the savings in transaction fees among the 90 million accounts existing among its associated companies would add up to approximately BRL 60 billion, equivalent to 67% of the estimated cost of Auxílio Brasil for 2022.

In addition to freeing these resources, which gave greater purchasing power to a segment of the population, Pix also promoted greater access to banks among Brazilians. Recent data revealed that about 110 million people had a Pix key registered in the country, while the

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were previously considered unbanked", Pandur calculates, citing as a reason for this the possibility of using Pix not only through banks but also on digital wallets.

Part of the difficulty in accessing banks has to do, once again, with the costs involved in the process. In his master's thesis at Fundação Getulio Vargas (FGV), researcher Arthur Smolarsky listed, based on aggregated data from World Bank's Global Findex, that 58% of unbanked Brazilian adults said they had no bank account because "didn't have the money for it". "A 2013 World Bank report indicated three reasons for the Latin American population to remain unbanked, which were 1) not having enough money, 2) considering having an account too expensive, and 3) not seeing a reason to have a bank account," recalls Smolarsky.

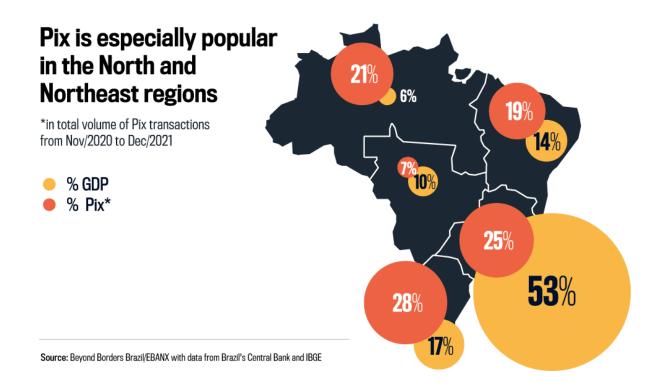
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He emphasized that most unbanked people usually live in the informal economy, which tends to deal more with cash and have less access to digital payment methods. So much so that, according to Global Findex, a significant part of the Brazilian population continues to pay its consumption bills (such as water and electricity) in cash, even though the percentage has been decreasing over the years, falling from 61% in 2014 to just over 40% in 2017.

Smolarsky also points out that statistics suggest that this unbanked population seems to have been effectively reached by Pix. "BCB data show that Pix growth has been proportionally higher among the lower classes. Just to give you an idea, among all income segments, Pix's advance was around 52%, while the increase in low-income users was 131% in paying accounts," says the researcher, who



together, those regions already account for 40% of Pix transactions in the country.



Data from Accenture corroborates this inclusion of people who previously based their transactions on cash: the consultancy company found out that cash flow in Brazil has decreased, going down from 45% of transactions in early 2021 to about 35% at the end of that same year. In the same period, Pix started to represent around 10% of transactions, according to Accenture.

## Financial inclusion brings a new segment of consumers and creates benefits for e-commerce

In addition to the financial inclusion that helps bring access to banks to a significant part of the country's population, Pix also created another important kind of inclusion: consumption inclusion,

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This happens because Brazilian e-commerce has been relying heavily on credit cards as one of its main means of payment for online purchases. Those who had a hard time with credit had to rely on boleto, a kind of Brazilian bank slip that can be paid in cash on ATMs, and which can take up to three business days to be settled by the receiver. "Despite all the inconvenience, boleto remained for a long time as one of the only ways for many people to pay for online purchases. It represented 20% of the e-commerce share until five years ago," contextualizes Erika Daguani, EBANX's vice president of product.

However, with the arrival of fintechs, new payment accounts, digital wallets, and, more recently, the opportunity to use Pix, the scenario has changed. "The arrival of new means of payment started to bring an unbanked audience to the digital world," says the executive.

This was noticeable in the analyzes made by EBANX, which revealed that among more than 1 million Pix transactions made by its platform in the last quarter of 2021, 62% were new consumers, who had not yet made purchases in that specific application or website in that year. These new consumers accounted for almost 40% of the volume paid via Pix in that quarter, representing an average increase of 20% in the sales volume of the companies that received Pix payments through EBANX. "Pix brought a pent-up demand that we didn't know existed. It's a new audience, buying for the first time in e-commerce," commented Wagner Ruiz, co-founder and chief risk officer of EBANX in the Beyond Borders 2022 report.

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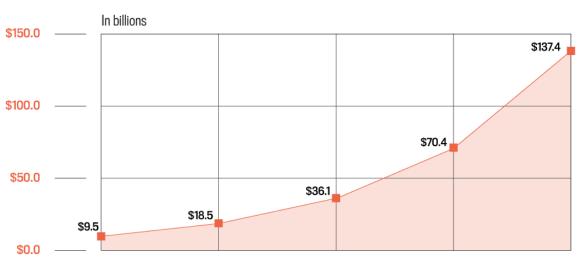
These analyses, added to the statistical evidence that Pix penetration

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new demographic layers of consumers, who may have been distant from online purchases due to difficulties with the ways available for them to make their payments.

And if the arrival of a new consumer audience was already good news for online stores, Bragança also highlights the advantage of reducing logistic costs for merchants who decide to use Pix. This is because those who are forced to use boleto as their last resort for online payments also create complicated logistics for merchants, who need to freeze their inventories for two, three, or even up to 10 days to be able to fulfill that customer's order paid for with boleto. "Instant settlement simplifies logistics chains and allows ecommerce costs to be lower, which also boosts the industry," points out Roland Berger's consultant.

It is no wonder that Pix is expected to have an exponential usage in e-commerce in the coming years, growing at an average of 95% per year until 2025, when it could represent almost 10% of the total volume of online purchases in Brazil, according to estimates by Americas Market Intelligence (AMI).



# Pix transaction volume in Brazilian e-commerce is expected to double every year until 2025



As innovative and revolutionary as it may be, Pix was not a magic trick done solely by the Brazilian Central Bank. Its creation involved a series of small and incremental steps over the last decades, in collaboration with key stakeholders of the country's financial system. They have been working together to reach agreements that have turned into reports, resolutions, recommendations, and laws that have opened up the space that was needed for Pix to become this huge success.

### **KEYWORDS**

Brazil, EBANX, Economy, Latin America, Payments, PIX



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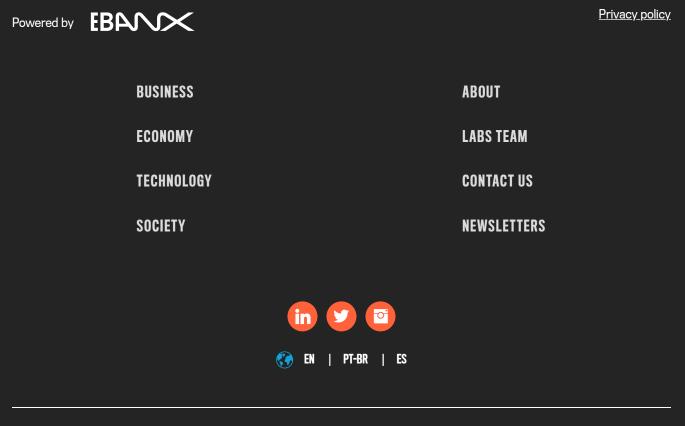
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