



ECONOMY

Pix revolution: collaboration between the Brazilian Central Bank and the local financial market was crucial for Pix's creation

Part of Pix's success is based on the alignment between the objectives of the Central Bank and the interests of the main financial players in the country



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xperts all over the world have been discussing the possibility of transferring resources from one account to another in real-time for quite some years. So much so that

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such as in the UK, with Faster Payments; in Sweden, with Payments in Real-Time; in Singapore, with FAST; in Mexico, with CoDi; in the Euro area, with TIPS; and in India, with UPI.

Pioneering, however, does not guarantee the successful adoption of the systems. CoDi, for instance, even though it was the first instant payment in Latin America, has been struggling with adoption among Mexicans. Unlike Pix, CoDi was not designed for the digital environment, and the following pandemic times, which arrived the year after CoDi's launch, imposed an important challenge for the Mexican version of Pix.

While each country discussed and implemented their instant payment formats, Brazil was already analyzing the feasibility of doing something similar."We already had the TED/DOC format, both allowing almost instant settlements, but there were some limitations, such as the times and days of the week when transfers could happen, which prevented instantaneity," explained Willer Marcondes, partner and finance specialist at PwC. The conclusion was that due to infrastructure issues it would not be possible to convert TED or DOC into an instant payment option, and this understanding led key stakeholders in the market to think about creating a new payment format that could be done in real-time.

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Fortunately for Pix, the Brazilian Central Bank (BCB) quickly positioned itself in a very proactive way, leading studies and analyses to better understand the financial scenario of the country, publishing reports that indicated potential paths for the future and how they could or should be achieved. Thus, discussions and decisions that

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payment systems, intending to make them "modern". In the following years, a series of reports and directives indicated that one of the key solutions would be to increase competitiveness in the payments sector.

The agenda instituted by the Central Bank based on these conclusions worked as a kind of strategic planning to stimulate the economy, reduce interest rates, increase economic attractiveness and make Brazilian society less dependent on cash and more connected with electronic money, explained Ricardo Pandur, senior strategy, and business manager at Accenture. One of the first measures taken by the BCB was to open up the acquirer market, which at the time was restricted to two main payment networks, Rede and Cielo. BCB wanted to evolve Brazil's means of payment in a way that would create pressure to decrease fees for credit and debit transactions and improve the competitiveness of POS terminals. The effect was felt relatively quickly, with the arrival of new payment terminals from the mid-2010s onwards.

In 2013, about seven years before Pix was officially launched, the new 12,865 law established new regulations for payment institutions, and a few years later more new regulations were established to create opportunities to regulate how fintechs could work in the country, allowing them to be Direct Credit Companies (Sociedades de Crédito Direto, in Portuguese) or P2P Loan Companies (Sociedades de Empréstimo entre Pessoas, in Portuguese). In other words, by the mid-2010s Brazil was on its way to developing a more open financial system, capable of embracing technology, with greater competitiveness and more options for consumers. These new guidelines pointed to better and safer opportunities for new players in Brazil's financial and payment system, which allowed the country



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"BCB started to act in a new role. In addition to being a regulator and inspector, BCB started to also act as an operator. This decision helped unlock some challenging consensus in the industry since BCB was placing itself a third party that would execute it [part of the process related to Pix]", contextualizes Marcondes, adding that the agenda imposed by the BCB to make Pix a reality was quite realistic, but also pretty challenging. "We now have a model of instant payment that is, in proportional adhesion to the population, the developed in the world", Marcondes evaluates.

Pix's story begins even before it got its name

Brazil's Central Bank has been talking for some time now about how to evolve and improve the country's financial system. Experts interviewed by LABS agree that the central bank has been proactive in creating a real-time payment system that could meet the country's needs and promote greater financial inclusion.

Check out the timeline below for some of the key moments in the Brazilian financial system that allowed Pix to be launched and become the success it is today.

2002

Start of the project to modernize payments for retail.

2006

Central Bank issues a guideline on the card industry.

2010

Report on the Payment Card Industry and start of public policy agenda to encourage innovation and competitiveness in the payments industry, opening the payments market for beyond the card brands and acquirers.



Law 12,865 - Initial regulatory framework for the payments industry that creates a simplified license to stimulate players from the fintech industry.

2015

New rules on interoperability of payment arrangements.

2016

Articulation of the regulatory agenda within the innovation agenda called Agenda BC+ (now just BC#).

2018

In April, the list of licenses available to fintechs increases: they can now operate credit and loan granting.

2018

In May, a Working Group on Instant Payments, where Pix was outlined together with market players, starts to meet. Today, it is known as the Pix Forum.

2019

BC announcement on Open Banking.

2020

Pix is officially announced at the beginning of the year and goes live in November.

2021

Central Bank launches the Payment Initiator feature, in which it is possible to make a payment with Pix without having to access the bank's app, Pix Saque and others.

2022 em diante

Pix Collection, Automatic Debit on Pix, Pix Guaranteed, Pix International, payment API, contactless payments, facial recognition payments, bluetooth payments, among other technologies.

Source: Banco Central, PwC, Zetta, Roland Berger, Accenture

The main thing that led to Pix's construction and advancement, according to the experts interviewed by LABS, has to do with how it was created and implemented in Brazil, starting with a series of reflections, discussions, and agreements between key stakeholders in

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participation of fintechs in BCB's series of public consultations during the construction of technical specification and regulatory framework that forms the arrangement," details Rafaela Nogueira, chief economist of Zetta, who considers this active participation of the sector and the willingness of BCB to listen to the suggestions and demands of the market one of the main milestones in Pix's history.

Acting as a leader and facilitator more than just a mere regulator, BCB coordinated a series of incremental decisions over the past decades that opened up the space needed to bring more innovation to the sector. By co-creating the regulations with the main players in the market, what BCB seems to have achieved was an alignment among all key regional players to meet Pix's main premises of financial inclusion and regional economy acceleration.

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"Creating new models favors the entry of new actors, which expand the performance of several institutions in new niches that were previously served only by financial institutions or by companies that were part of the financial system. Today, in a sense, there is less need for financial intermediaries than before. What was holding back or could hold back the performance of these new actors was precisely regulation, which highlights the importance of BCB's proactive attitude," says Lauro Gonzalez, a researcher at the Getulio Vargas Foundation (FGV), who believes that the convergence between tech innovations, the financial services industry and the Central Bank as a regulator allowed the scenario to be redesigned. "Things did not happen at the same speed as in the telecommunications market, but financial services, in general, ended up incorporating the ability to



Pandur, who has been following the development of instant payment systems around the world, believes that BCB's leading role had a positive effect especially in deciding how it all would be done. One of the highlights of Pix as a financial framework, according to EBANX's Beyond Borders report, was the decision to include the use of QR Code, a common feature in mobile devices, to encourage interoperability with other systems. "QR Codes allow several players in the market, such as retailers, banks, payment institutions and individuals to integrate easily with real-time payment, in a single operation and security standard," details the report.

By bringing to itself decisions like this, or even defining how many Pix keys would be for exclusive use, BCB was able to speed up the processes that outlined the way Pix works today. "If this kind of decision had been left for market self-regulation, it could have taken longer," says Pandur, who believes that the BCB's leadership in defining formats, rules, and even API models was essential for the progress of the project. "Being able to meet the schedule in November 2020, amid a pandemic, at a time full of uncertainties, was a correct decision, because if not, maybe Pix would not be implemented," says the executive.

All this proactivity, however, did not happen only by BCB's will, but also as a consequence of a context that offered several opportunities for players in the financial market, stresses Gonzalez. After all, by understanding that new regulations could expand chances of profit, it became easier for BCB to establish some kinds of regulations, such as mandatory participation in Pix for banks and financial institutions that had more than 500.000 active accounts. "New opportunities for the financial market certainly made it easier for BCB to act in that

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options and, because of that, also supported BCB's proactive agenda," Gonzalez points out.

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This balance of interests was beneficial, says Nogueira, for whom the positive effects can be perceived in statistics about Pix's first year, which shows more equity among players involved in instant banking operations. "Considering the number of transactions, fintechs hold 34% of operations by Pix, while credit card transactions rate was around 29%," describes Zetta's chief economist.

There's just one point that the market should be aware of, points out Pandur, which is guaranteeing that BCB does not become a competitor for companies it regulates. "Pix is an infrastructure, from BCB's point of view, and financial companies should be the ones taking the rules to practice and creating their own value proposals", he recommends.

In the same way that alignment and co-creation with key financial players in Brazil made Pix a success, the same seems to be happening nowadays to deal with Pix's challenges from now on, which involve overcoming security-related problems and launching new features, such as Pix Garantido and even a future Pix International.

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This is the second story in a special series about the Pix Revolution. You can read the first part, which addressed the financial inclusion and consumption character catapulted by Pix, by clicking on this link.



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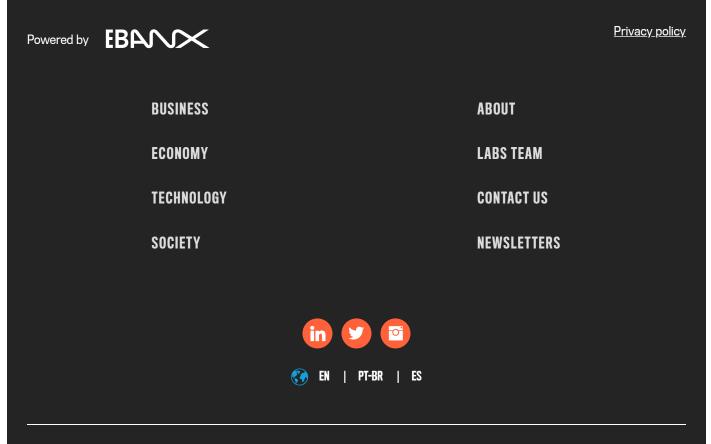
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