



ECONOMY

Pix revolution: after overcoming obstacles such as fraud attempts, the coming launch of Pix Garantido can create a more inclusive credit scenario

Creative uses of the Pix, either for good or evil, demonstrate a fast adoption of an instant payments system that promises to bring even better access to credit

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ne of the most curious pieces of evidence on the ease of adoption of **Pix** in **Brazil** can be seen in a very specific type of transaction: there

that in April 2021, just a few months after **Pix**'s official launch, there were almost 1 million transfers of the lowest value allowed by the instant payment platform. The reason? Brazilians were taking advantage of the description field, available in every **Pix** transfer, to send messages to the receiver of that money as a way of flirting or even to apologize and resume relationships (!).

The practice became known on local social media as “**Pix** Tinder”, and it highlights both Brazilian's creativity – who realized that the Brazilian Central Bank (BCB) had not imposed ways of banning a specific **Pix** receipt – and the audience's understanding of how to use the platform, even if in very unexpected ways.

However, as a double-edged sword, the ease of use that turned **Pix** into a flirting tool also increased the number of thefts, robberies, and kidnappings. Criminals were interested in having access to unlocked phones to gain access to the banks or digital wallets to quickly make **Pix** transfers from victims' accounts, instantly stealing substantial amounts of money.

According to Ricardo Pandur, Accenture's senior strategy and business manager who has been following the global scenario of instant **payments**, no one outside **Brazil** had made use of instant **payments** as an alternative to Tinder, in the same way, that thefts specialized in the format, which became known as “zeroing-accounts” scams, had not been previously seen. “Creativity is a very striking feature of ours, for better or for worse,” reflected the expert about the unprecedented nature of the two practices that happened in **Brazil**.

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director of services of the Brazilian Federation of Banks (FEBRABAN). “The attempts at virtual fraud via **Pix** have been identified as phishing attacks, which use social engineering techniques to deceive the individual so that he or she provides confidential information, such as passwords and card numbers. It does not originate in system breaches. The system is safe”, he reinforces.

Experts consulted by LABS agree that measures that have already been taken by BCB since April 2021 – such as setting limits for **Pix** transactions during the night and for unknown contacts, and even a daily maximum of **Pix** transactions that can be made by a given account – tend to mitigate the risk of thefts interested in “clearing accounts” via **Pix**. “These are some unexpected effects that can happen when adopting new technology. These are digital security issues that will have to be discussed in the coming years, not only for **Pix** but for all digital services”, believes Lauro Gonzalez, researcher, professor, and coordinator of the Center for Studies in Microfinance and Financial Inclusion at Getulio Vargas Foundation (FGV).

Likewise, Pandur emphasizes that there is a maturity cycle expected for **Pix** as a financial product. In the coming years, there is hope that more advanced improvements will be made to ensure more secure transactions. “We need better fraud prevention algorithms, using geolocation, patterns of behavior, whether the transaction is for a new contact or not, among other mechanisms,” says the Accenture expert, citing as an example the case of Zelle, a digital payment network in the US that uses a triple authentication factor for new transactions in its users’ account.

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The conundrum that regulators and institutions will need to solve lies in the balance between including new security measures without messing up **Pix**'s experience as a payment platform. "The easier the experience, the greater the chance of weaknesses that can turn into security loopholes for misuse by opportunists. On the other hand, stronger security measures could worsen users' experience," says Willer Marcondes, partner and finance specialist at PwC.

Pix points to a cashless future

Although dealing with the unexpected challenges and uses, **Pix** is still an undisputed success in the country and a "global benchmark", according to João Bragança, economist and financial consultant for Roland Berger. This happens because **Pix** has "a huge benefit", in Bragança's words, of eliminating costs associated with printing cash and transaction fees paid by consumers.

It all makes perfect sense: having less cash in circulation is a common interest both for financial institutions and regulators. PwC estimates suggest that in the coming years there will be less and less cash flowing around the world. It could be the dawn of a cashless future, focused on using electronic money, since "keeping cash flowing in an economy has a high cost," Marcondes points out. Besides all the logistics investment needed to make cash available in different cities all over the country, there are a lot of costs associated with ATM maintenance, money printing, and even the potential loss of banknotes that will eventually need to be printed again. "Some studies have shown that making cash available for people costs around 1 to 2% of a country's GDP," recalls the executive.

In addition to the savings that could be done by printing less cash,

so that experts estimate that features such as **Pix** Saque (which allows people to make a **Pix** transfer for an establishment and receive the total amount in cash) and **Pix** Troco (which allows using a **Pix** transfer to be partially converted to cash) might have a success rate that is inversely proportional **Pix**'s, suggests Bragança. "As **Pix** gains strength, there will be less need for cash," he predicts.

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Even though some means of payment could have less usage, this rarely means they will become extinct. Erika Daguani, **EBANX**'s Vice President of product, argues that hardly one payment format will cease to exist because of another one. Considering her more than 20 years of experience in **Brazil**'s financial sector, she recalls how both checkbooks and cash are still pretty much in use in **Brazil**, even if they slowly became less relevant for the majority of people. "Usually, new means of **payments** tend to cannibalize those that already exist," she explains.

As a consequence, methods that can be settled in non-instant manners, such as TED and DOC, should remain relevant, especially for B2B transactions, which tend to have higher average tickets, around R\$30.000, observes Pandur. However, for businesses that benefit from **payments** that can be settled very quickly, **Pix** could become an important improvement in comparison to boleto.

"Think about the gaming sector, for instance. **Payments** made through boleto don't make much sense, because they can take up to three days to be settled. This kind of timeframe doesn't match player's urge to play right not", concludes Daguani, for whom **Pix**

way that many people have available to make **payments** in digital stores. These new possibilities of **payments** [such as **Pix**] can bring a new audience into the digital world”, she assesses.

Pix Garantido may change credit card perception

Pix’s roadmap has some new features to come, and one, in particular, is keeping experts apprehensive: it’s **Pix** Garantido, a feature that should allow consumers to make install **payments** via **Pix**. The plan is to make it work in a way that is similar to what already happens when Brazilians make install **payments** through credit cards.

However, unlike **Pix** Agendado, which can be scheduled to happen on a specific day and time if there is a balance on the paying account, **Pix** Garantido will be made through specific financial institutions, which will be responsible for “guaranteeing” that that payment will happen even if the paying account does not have sufficient funds.

“As soon as **Pix** Garantido gets live, I believe credit cards will keep existing. Their clients are used to their card’s benefits – such as travel miles, access to VIP rooms in airports, and such – but transaction fees and miles will certainly be pressured, and that could remove value from this payment chain,” Bragança speculates.

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This pressure, on the other hand, could have interesting benefits, observes Rafaela Nogueira, Zetta’s chief economist. Taking into consideration that almost half of the Brazilians do not have access to credit cards, according to IBGE’s Family Budget Survey of 2017/2018,

for a lower-income population. **Pix** Garantido could reach a larger consumer audience, for whom credit cards haven't been able to attend," believes the economist, who also anticipates a chance of business growth related to the ability to make install **payments** through **Pix**. "Because of economic and cultural reasons, Brazilians usually consider installments when making a purchase. **Pix** Garantido has the potential to leverage the usage of **Pix** among merchants by allowing installments in a more efficient and simpler way", she suggests.

Even though **Pix** Garantido can be seen as a threat to the credit card businesses, Daguani believes there's a huge potential for increased competition, which might lead to an expansion of credit options to a layer of Brazilians that weren't previously using credit as a financial service. "I mean, what is really behind **Pix** Garantido is a kind of credit, which brings to the table a relevant part of the population that might not need such a robust and sophisticated type of credit such as the one offered by credit cards", she adds. "If credit cards can't meet the needs of this audience, **Pix** will be able to do that", concludes **EBANX**'s VP.

Possibilities are endless

When invited to imagine the impacts of **Pix** in the near future, many experts hesitated. With so many new features yet to come, it was understandable. "**Pix** presents numerous possibilities, so this kind of exercise is almost impossible," claimed Nogueira.

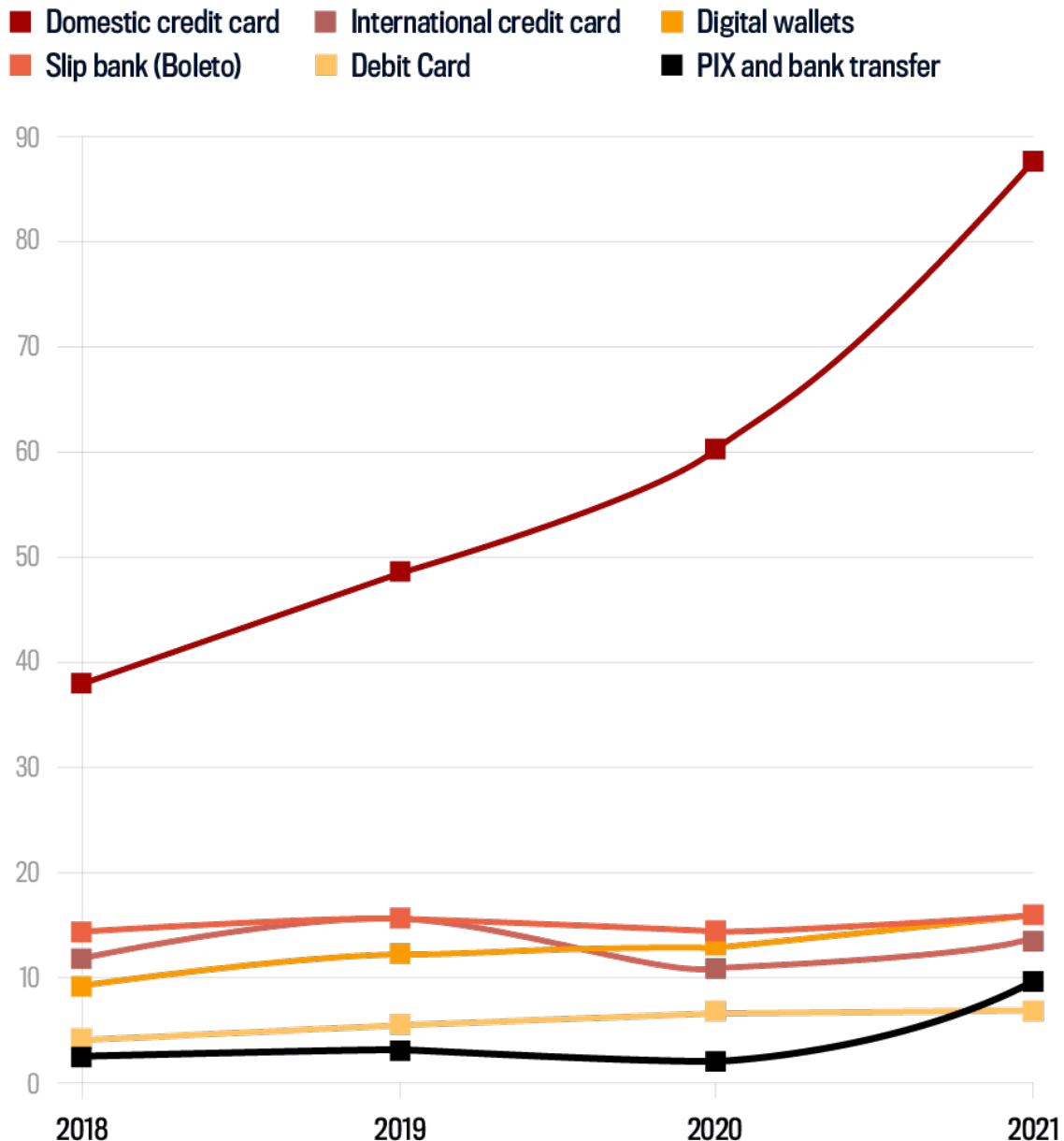
On the other hand, it was clear that **Pix** is expected to be part of a global **payments** future that seems to be ruled by instant



TED, boleto, and even the surviving checkbooks, but no means of payment is expected to disappear overnight.

E-commerce payments in Brazil over the years

In transacted volume (in bl)



Source: Beyond Borders/EBANX with data from AMI (American Market Intelligence)

Brazilians have gotten comfortable using **Pix**, which also can be

covering in detail how citizens would be able to use the new payment method. There's even an official BCB website for **Pix**, where readers can find all the basic info about it, along with statistics of usage and speed of adoption, along with lots of short videos showcasing **Pix**'s ways of working. "**Pix** could be quickly understood by the audience, especially the ones used to paying high fees in TED transactions or small entrepreneurs used to paying rates for using POS terminals. Benefits were clear, immediate, and easy to understand", emphasizes Bragança.

Pix's next steps

1

Pix Garantido (also known as Pix Parcelado):

It allows install payments via Pix. Transactions need to be made by institutions that can guarantee that payment will be made even if the paying account has no balance.

2

Centralized collection of Pix Cobrança

Standardization for remittance archive and return to make possible the management of collections of payments with expirations in a future date, in a way that makes it possible to include interests, fines, additions, discounting and others.

3

Pix Duplicata

This will allow the collection of Pix payments related to advancements on invoices, allowing. Advancements already exist in Brazil for purchases done with credit cards, and the idea is to offer something similar through Pix.

4

Pix's Payments API

An interface that aims to facilitate and automate the interaction between the financial institutions and payments institutions that use Pix and its users to receive Pix payments.

5

International Pix

The intention is to be able to make instant payments to and from international accounts.

6

New forms of initiating a Pix payment

The objective is to allow Pix to be started more practically, through new technologies, such as approximation technologies (NFC, Bluetooth, RFID) or facial recognition.

seen by experts as **Pix**'s key success and the main reason for its revolutionary features, especially considering the benefits offered for Brazilians who could save on transaction fees when receiving Emergency Aid resources during the pandemic. "What we've seen happen with **Pix** seems to be possible only in a market such as **Brazil**, where consumers have preferences that align with a digital experience, even among older people", says Bragança, mentioning the massive presence of smartphones and high penetration of WhatsApp, **where the app is installed in 99% of devices**.

In the near future, **Pix** is expected to double the volume of use in purchases on e-commerce every year, with an average growth of 95% by 2025, according to AMI projections. In the long-term, BCB's decision to position itself not only as a regulator, but also as an operator of **Pix**'s infrastructure may ensure that future payment innovations will keep their strong adoption among Brazilians. This should strengthen **Brazil**'s payment infrastructure, keeping diverse payment and credit options for the audience, creating a competitive scenario that should guarantee the quality of services in the coming years.

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From 2022 onwards, **Pix** will need to overcome challenges related to integration into other payment solutions and to keep the public's confidence in its security by reducing the risk of fraud. "More than a competitive advantage, **Pix** will soon be a mandatory item for every new business in the country", speculates Pandur. On the roadmap, there's also hope that **Pix** will get the chance to be connected to other global instant payment systems with the future launch of **Pix**

Even with so many new features still in the pipeline, **Pix** made it clear that real-time **payments** will be central for financial transactions worldwide. “**Pix** is an innovation in the real-time **payments** paradigm. It’s agnostically operated by BCB, it’s open to all operators, either banks or fintechs, and it tends to be free of taxes. This framework certainly draws attention all over the world. I’m talking about **Pix** with international peers and partners in every one of my meetings because everyone wants to know more about it,” says Bragança, who seemed thrilled to follow **Pix**’s adoption so closely.

At this point, it’s not an overstatement to say the **Pix** was a revolution in **Brazil**’s payment system. It’s also not bold to say its implementation was able to get **Brazil** at the forefront of Latin American financial innovation. It just seems to be fair to acknowledge that **Pix** has become a worldwide reference.

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This is the third and final part of a special series about the Pix Revolution. [Click here to read the first part](#), which reflects on the character of financial inclusion and consumption catapulted by Pix’s success in Brazil, and [click here to read the second part](#), which tells how Pix was created, from an unprecedented collaboration between the main representatives of the country’s financial market.

KEYWORDS

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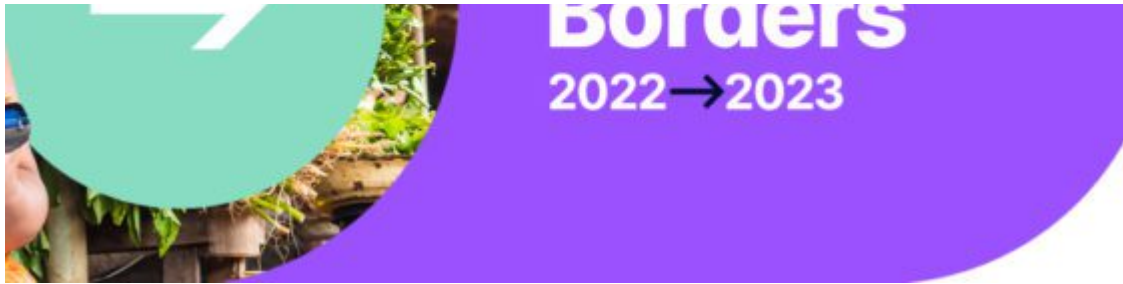
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