The Covid-19 pandemic and the rise of digital payment solutions in Brazil

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Authors

Felipe Prado

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From the beginning of the covid-19 pandemic, Brazil has faced not only healthrelated but also financial challenges in overcoming the problems brought on by these difficult times.

Since adopting the strategic agenda known as BC#, Brazil's Central Bank has been working on initiatives aimed at financial inclusion, user acceptance of digital financial platforms, and the creation of a regulatory environment that encourages disruptive business models, with a view to increasing competition and improving services in financial and payment services in Brazil. The effects of the pandemic have only highlighted the importance of these initiatives.

Some results of the BC# agenda were quick to show themselves, such as retailers' accelerated transition to e-commerce, and the spread of digital payment technologies, notably contactless payments. But alongside these movements, which have increased the volume of digital payments in Brazil, medium- and long-term measures have also gained force during the pandemic, paving the way to broad structural changes in the National Financial System and the Brazilian Payments System.

Some examples of this evolving ecosystem are:

- open banking;
- Pix, Brazil's instant payment system;
- the Central Bank's regulatory sandbox;
- the creation of payment initiation service providers; and
- registration of credit card receivables – all currently underway within the Central Bank.

The first phase of Open Banking started in February 2021, and full implantation is expected by December 15, 2021. An open financial system will allow financial data and services to be shared (with the data subjects' consent) between institutions authorized to operate by the Central Bank. Open banking is a twoway street, and agents in the financial system both receive and supply data. Participation is compulsory for Brazil's larger banks, and the rollout of open banking in Brazil contemplates standardization of APIs and digitalization of the data-sharing process. One of the challenges on the horizon, however, is the inclusion of agents that are given access to financial data by data subjects, but are not under the Central Bank's regulatory jurisdiction or are outside the financial system altogether.

Pix was launched in 2020 and the creation of the Instantaneous Payments System – SPI has made instant payments and transfers "24/7" a reality for users holding bank accounts or payment accounts with any of the more than 734 participating institutions. Pix has contributed to the transition to purely electronic means of payment, reduction of costs, and the entry of fintechs and big techs in Brazil's financial services sector. In 2021, importante improvements were made in the Pix regulations, such as:

- the creation of procedures for dispute resolution between direct and indirect participants in the SPI,
- the creation of "Pix Cobrança", which allows users to schedule payments for the future, rather than making them immediately, and
- additional Pix Key tools (registration, cancellation, and types of keys).

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The Central Bank also initiated Cycle 1 of its Regulatory Sandbox. Companies interesting in participating had until March 19, 2021 to register innovative financial or payment businesses for testing in the next two years, and the Central Bank has until June 25, 2021 to issue its decision on the proposals submitted.

In October 2020, the Central Bank issued regulations on a new type of payment institution – payment initiation service providers – PISPs. The PISP regulations allow new players and suppliers of technological innovations to enter the payments market by allowing them to offer services that merely initiate payments and transfers from transaction accounts held in other institutions. Through mobile apps provided by PISPs, users can consult and initiate financial transactions, even though the PISP does not handle funds and/or manage transaction accounts.

Another change is that, starting in June 2021, acquiring banks will be required to register 100% of their credit card receivables in central asset registries. This measure is intended to foster the credit card factoring market and the use of credit card receivables as security by providing a faster, more secure and more accessible alternative for comercial establishments to finance their businesses. With the new requirement, all receivables originating in credit card sales will be registered in interconnected systems, which will also record transfers and liens against the registered receivables. With the consent of commercial establishments.

Although the covid-19 pandemic may have delayed the rollout of some of the Central Bank's initiatives, its challenges have also served to emphasize the importance of digital payment solutions for Brazilian businesses and Brazilian consumers.

That make credit card sales, banks and other institutions interested in offering credit can consult the establishments' receivables schedules on-line, and register and lift liens against receivables given as security for loans. The initiative has benefits for multiple agentes in the payments market: fintechs and acquirers will gain access to information on credit card receivables even when they are not generated by proprietary credit card machines, while retailers will gain bargaining power and more freedom in obtaining credit, since they will be able to offer their receivables as a lower-risk security.

Although the covid-19 pandemic may have delayed the rollout of some of the Central Bank's initiatives, its challenges have also served to emphasize the importance of digital payment solutions for Brazilian businesses and Brazilian consumers. It is precisely for that reason that the Central Bank has continued to push forward with the regulatory framework for fintechs and the payments industry, consolidating the BC# agenda and new opportunities for 2021.

**This content is part of the e-book "A Post-Covid World, the ESG Agenda and Other Trends in 2021: Insights for Foreign Investors in Brazil". Click here to view all the articles.*

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Felipe Prado