



## **FINTECH ONE-ON-ONE PODCAST NO. 406-CARLOS EDUARDO BRANDT**

Welcome to the Fintech One-on-One Podcast. This is Peter Renton, Chairman and Co-Founder of Fintech Nexus.

I've been doing these shows since 2013 which makes this the longest-running one-on-one interview show in all of fintech, thank you for joining me on this journey. If you like this podcast, you should check out our sister shows, PitchIt, the Fintech Startups Podcast with Todd Anderson and Fintech Coffee Break with Isabelle Castro or you can listen to everything we produce by subscribing to the Fintech Nexus podcast channel.

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**Peter Renton:** Today on the show, we have an interview I did at Fintech Nexus LatAm on December 13th, I interviewed Carlos Brandt, he's the Head of Pix at the Central Bank of Brazil. Now, if you haven't heard of Pix, you really should have, it is probably the most successful fintech product in the history of the world and Carlos is one of the Founders of Pix. We talk about some of the back story, what made Pix successful and why it has become such a phenomenon bringing in over 60 million people who have never done a digital transaction before into the financial system for the first time in Brazil. Truly a stunning product and something that I think we all should learn from, and I think this is an episode, even if you're not interested in Latin American fintech, you will find fascinating. Hope you enjoy the show.

We are now going to talk about Pix. Pix, I think, is probably the greatest success story, certainly over the last decade, in all of fintech globally and we're delighted to have with us here today one of the architects of Pix who is going to talk to us about, not just about what's happened, but what is going to happen with Pix. We're very excited to have with us Carlos Brandt, why don't we kick it off by...give the audience a perspective on the origin of Pix and your role in it.

**Carlos Eduardo Brandt:** Thank you, Peter, and thank you Fintech Nexus for inviting me to this very nice conference. I am the Head of the Management & Operations of Pix at the Central Bank of Brazil, I've been working for the Central Bank and in payments for 20 years and I have been engaged in the Pix product since the very beginning. We kind of thought about a new payment ecosystem from scratch that could help the Central Bank and, of course, the whole society to achieve some very important public objectives and that's how we started to design and to define the basic characteristics of Pix since the beginning.

**Peter:** Did you have any idea that it would be as successful as quickly as it has been when you launched?



**Carlos:** Well, we thought it would be successful because we were very careful in terms of defining the goals, defining the objectives and also defining how Pix will be designed to achieve those objectives. So, we really thought we would be successful, but, of course, the speed that everything happened was a surprise for everyone, I mean, it was very fast. In two years of operation we have more than 2.5 billion transactions per month, more than any other payment instrument, I mean, it's very impressive how fast people and businesses adopted Pix.

**Peter:** Right. You know, when we chatted in Mexico City a few months ago and you talked about the role of your son, who was fairly young, but you talked about your role of your son in the design of the Pix experience, tell us a bit about that.

**Carlos:** Yeah. That's a very interesting story because one thing that was very important in Pix for the public objectives, remember that we have among the public objectives financial inclusion, and to achieve financial inclusion we need a very simple, a very intuitive solution for people in general. Of course, we need complex solution for businesses and we did that, but to achieve this characteristic of being very intuitive, very simple solution to everyone, we were very obsessed about user experience. I mean, we would like to have in place solution in any PSP that was part of the big ecosystem that would be good no matter which PSP you would be connected to.

So, we defined it, as we call UX requirements, those are basics of UX implementation for apps that all PSPs want to or need to implement and to have a very, very simple, intuitive solution. I hired a Special Advisor which was my son back then, he was nine years old at the time, we got options and alternatives from experts in UX. Of course, we gathered specialists from the Central Bank, from the industry and got out the possible solutions to implement in terms of UX requirements. But whenever we had two options I would say to my Special Advisor and to make sure that we would choose the very, very simple solution for Pix.

**Peter:** Okay, that's really interesting. So, let's talk about the roll out because you rolled out to banks and non-banks as well, why'd you sort of like do both types of payments companies?

**Carlos:** As I said, we were very ambitious in terms of public objectives, a lot of public objectives in just one project and financial inclusion, getting frictionless electronic payments and so on, but one public objective was getting or improving competition in the payment system and in the financial market as a whole in a more broad sense and to our chief competition, it was very important. I mean, we had a clear view that non-banks and especially fintechs were a very important component of the ecosystem to achieve competition.

Let's say the first step to get to the final objective was to build a regulatory framework for non-banks so we did that in 2013 in order to get those new entrants in a safe way so it would be safe for non-banks because they would know in a clear way what the regulator would require from them. And also, it was safe for the clients because they would trust fintechs, non-banks and so on, they would know that the Central Bank would be supervising and that they would have a strong risk management framework so the foundation was ready with let's say, this piece of regulation.

The second stage was to build a new ecosystem from scratch and to design the ecosystem in a way that the access would be very open, open to banks, open to non-banks. We define the very equal, let's



say, joining process, level playing field, I mean, the joining process would have to be unified either for banks and for non-banks, but it's not only a matter of giving access, but a matter of giving access at the same time.

So, we established a joint process for banks and non-banks since day one, I mean, they could join Pix since day one as long, of course, as they would meet the operational requirements that we had in this joining process. They would have to prove that they were capable to meet these operational requirements, we would have to make sure that they would also have their apps compliant with the UX requirements and so on. But the main thing was improving competition, getting a level playing field for non-banks and to get them into the system, as I said, at the same time.

**Peter:** Right. So, did you mandate that banks had to join, had to make things available, I mean, there's been other initiatives in other countries that have not rolled out close to as successful as what Pix has done. How did you encourage the different players in the ecosystem to really come in and, you know, be an active player?

**Carlos:** Yeah. Well, we're talking about competition, right, so we know that the incumbents or the big players would kind of resist a little bit to get into a competitive ecosystem and the others, of course, would join on a voluntary basis, of course. So, we mandated, we put a must join rule for banks, not only banks, but for any institution that would offer more than 500,000 active accounts for clients, for customers so they would have join since day one. Of course, the rest of the system, banks and non-banks could join since day one, as I said, at the same time. And so, that's how we put everyone together and achieved critical mass and so on in a very early stage.

**Peter:** Right. So, what's the latest number, how many people have been added to Pix that have never had any kind of digital account before?

**Carlos:** These numbers are growing a lot during this....so I try to keep up with that number every month because it keeps changing a lot, but the last number I have is 64 million people that were put into the system or that made their first digital transaction with Pix and I mean, that's very impressive, it stands for, I don't know, half of the population in Brazil. It really impressed us and at the same time it made us happy because we're achieving financial inclusion, digital inclusion and many other things.

**Peter:** Let's just pause at that - 64 million people who didn't have a digital account, but now they do. I mean, that's transformational and it's interesting because I was talking to somebody who said that they lived in Brazil, had a housekeeper and they said, I don't have a bank account, I just have Pix with HSBC. So, it's like you've branded this as such that people who don't trust banks have a Pix account not realizing they actually have a bank account as well so what does that mean for Brazil? Obviously, when you had this mandate to sort of bring all this new technology to the whole population, I mean, what does it mean now that 64 million people now are using digital payments?

**Carlos:** Yeah. Well, that's very important for Brazil in many different aspects. The first thing that I could mention here is the capability or the possibility that the individuals have to make frictionless and no-cost payments, I mean, payments is something that everyone does every day, right. So, instead of people having cash and have to worry about security and cash in their pockets and so on and change and everything, they now have access to a very intuitive, simple and no-cost solution so that's the first



gain that we achieved. But it's more than that because when people access the financial system they start to get access not only to payments but to credit, to investments, to insurance, something that they didn't have access at all, right, and that's important for the people. But it's very important for the financial system as well because it's new opportunities, new business opportunities for the financial system.

So, we added business opportunities as well with that inclusion process, but more than that, more than getting people into the financial system.....once they have that possibility of having electronic payments they start to get access to digital services, something that they didn't have. They didn't have access to ride apps or to food apps or so on because they didn't have a means of payment, they didn't have anything or they didn't know how to pay for digital services, but they did have already mobile phones and they use social media and everything, we put that into perspective as well. We are adding also new opportunities for the whole economy, I mean, new businesses could achieve those 64 million people that were included. So, we could see that financial inclusion in a very wide perspective to see how important that has been to Brazil.

**Peter:** Right, right. So, what about e-commerce, has that sort of flowed into e-commerce now that people have an account? You know, obviously, there are lots of fintechs focused on the e-commerce space as well, what can you say about how Pix has kind of boosted that?

**Carlos:** Yeah. I mean, it's a use case that has been adopted in a very fast way well, Pix serves e-commerce with fast, secure solutions for them. When we compare Pix with Boleto and credit card which are the most accepted payment instruments in e-commerce, we see that Pix is more convenient and it's faster than Boleto and Pix is safer and cheaper than credit cards. So, from the business perspective, it makes sense just for these basic characteristics, but it's more than that, I mean, Boleto is not comparable with any use case because it's not instant so you don't get instant confirmation in Boleto.

So, any use case that needs an instant confirmation they can't accept Boleto so it's only credit cards, but credit cards, not everybody have access to credit cards, right, because sometimes it's expensive, people have to pay fees or sometimes they don't have a credit score and so on. So, there are many people that didn't have access to e-commerce because they didn't know how to pay and so Pix is offering a good solution for e-commerce and also is offering the possibility of having a greater or a bigger customer base for other businesses.

**Peter:** Right, right. Obviously, there's a lot of person-to-person payments in Pix, there's also person to businesses, what are you doing to help kind of accelerate business-to-business adoption, is that part of what you're looking at?

**Carlos:** Yeah, yeah, that's part of what we're looking at. Of course, Pix is just, to take a step behind, Pix is designed to serve any use case, right, B2B, P2B, P2P and so on. The first use case, of course, would be the P2P because everything that we would need for P2P transaction would be on the app already and we did that since day one and, of course, people would have to know that they had the app already. So, that was the first use case why they adopted and B2B has been widely adopted and has grown a lot especially in 2022, in this last year, because of the integration needed for the P2B were done in 2021 and early 2022 so it has been growing a lot. We had the first month of operation in



Pix, only 5% of P2B transactions and we have now 25% of P2B transactions and we foresee that's going to grow a lot, much more than 25% in this market share.

And, of course, B2B is the smallest share, it's only 3% of the Pix transactions, but there are some reasons for that. I mean, the first reason is that it demands IT investments to adopt the ERP solutions, it also demands solutions standardized or specialized solutions from the PSPs to the companies in order to allow them to make batch payments and also have multiple authorization layers, especially for big tickets, payments. And also we have a credit transfer that is working quite well for that use case so it's naturally the last use case that is going to be widely adopted in Brazil, but we do have special products and we have designed improvements in order to help the B2B, especially the batch payments, allowing batch payments into Pix as well.

**Peter:** Right, right, okay. So, we saw earlier this month the Governor of the Central Bank of Brazil talk about opening up the Pix protocols to other central banks to allow them to basically copy what you guys have done. What's the thinking there, does that benefit Brazil or what's the sort of thought process?

**Carlos:** Well, the main goal is to improve cross-border payments. We are trying to figure out ways to improve those type of payments, it's not an easy task. We do have a special, as we call, product in our working agenda which is called Pix Internacional which is International Pix and that product is not defined how we're going to do it yet so we have many possibilities. One possibility is to have a multi-lateral platform to connect different instant payment acquisitions and so on.

Another possibility is to link to acquisitions or through instant payment acquisitions, I mean, Pix with multiple different ecosystems in other jurisdictions. Another way would be to deliver the Pix code for different jurisdictions and, of course, open that code and, of course, will be easier to connect bilaterally. We don't have yet the decision to really open the code and so on, it's something that we are thinking about, we're analyzing how to do it, the risks involved and if that really is the way to move forward, but it's something that is on the, let's say, on the agenda of evolving cross-border payments.

**Peter:** Okay, we have a lot of questions coming in here, 21 questions.

**Carlos:** 21.

**Peter:** We're not going to get to them all.

**Carlos:** No, no.

**Peter:** But let's start off with some of the top ones here. So, how is Pix, is it "Pago Leigo?" going to work. Do you consider it a substitute of the credit card?

**Carlos:** We don't consider Pix a substitute or we don't have intentions to replace any type of instant or any type of payment instrument. There are some payment instruments, for example, Boletto which Pix has, I would say, some characteristics, some capabilities that Boletto doesn't have and we really think it's going to be predominant in the mid-term. But for credit cards and for debit cards and so on we don't see it as a substitute, we offer good solution, we offer low cost, simple, fast solutions and the other



payment instruments they have to, of course, offer good solutions as well and if they do, they're going to stay there for many years.

**Peter:** Right, right, okay. Another interesting one here, is there a place for crypto payment rails alongside Pix?

**Carlos:** That's something that we are studying and, of course, taking a very close look at. We are also analyzing the "Digital Real/Real Digital" or the CBDC as we call it and, of course, we are analyzing how the crypto world could connect or benefit or exist in parallel with Pix. We don't have a final conclusion or something that we could state in a very clear way, but the only thing that we could say here, for sure, is that we are taking a very close look at it.

**Peter:** Okay, okay, fair enough. So, what about the... there's one here about financial scams and we've heard about some of these stories in the press, what is next in line on the Pix roadmap to try to block or prevent financial scams and crimes on Pix?

**Carlos:** That's nice. Well, we have announced actually two weeks ago our working agenda for 2023 in the Pix Forum that we have and that forum, of course, is the place where we discuss and we submit consultations and so on to the community and, of course, to the stakeholders and one very important piece of this working agenda is related to security. So, we announced pretty much two very important, we have a few other ones, but we announced two very important measures in regard to security.

The first one is to mark, as we call, or to input in our database information of fraud source, not only accounts but the person. We have a database that has information that a specific account was used in a fraud, it's usually a mule account, right, so instead of marking an account, we're going to mark the person. So, no matter PSP that you open the account and many times you open accounts with good documents and I mean, they are good persons, but they just let the fraudsters use their accounts for fraud, we are marking the person. And so, we are going to prevent the mule account that's going to be used for fraud and that's a very important one.

The second one is an improvement in our special refund mechanism that's going to be able to not only get the money to get the refund from the first account that received the funds from a fraud, but we're going to be able to track that money and no matter where is the final point of that money, we're going to be able to get the refund, of course, if the money's still there, right.

So, those are the two most important features that we announced two weeks ago and we also announced a new business product that is not related to security as well, to fraud or anything, but we announced the Pix Automatico which is a very important product for recurring payments. We presented preliminary specs for authorization, for payment scheduling, for payment settlement, we're going to submit those specs for consultation to the Pix Forum and for the selected companies as well, I mean, we are developing the ecosystem.

**Peter:** Right, right, okay. I think we just have the time for one more, let's do this one. What is on the roadmap for the next five years.



**Carlos:** Well, for the next five years we don't really know yet. As I said, we have the working agenda for 2023, that's something that we could say for sure and the working agenda has components on safety and security and also components on the business side. For 2023, we have the Pix Automatico or the recurring payments in Pix and that's for sure. That's what we're going to dedicate our energy, our work for 2023, we don't know yet when it's going to be live, we don't have a go live date yet, but that's something that we're going to going work on for sure. And for the next five years, we don't know in each order we're going to move on and we're going to implement in the near future, but we have the Pix Internacional or the International Pix related to cross-border which is top priority in our agenda.

We also have the Pix Garantido which is somewhat similar to what credit card does, serving the buy now, pay later use case, that's something else that's also very important in our working agenda. We have the capability for batch payments to be implemented for the B2B transactions, we have different ways to initiate our payment because right now, we have the QR Code and we have the Pix Key which you insert the mobile number and so on, you just initiate Pix. We wanted to get new technology and offer new ways to initiate a payment, for example.

I would say those are the most important ones, but as we are talking about five years' time, we could see something in this period that we could get into in the agenda because new technologies could come, new business models, new needs from innovative business and so on could come in and so we could put a new or a different product in our working agenda for the five-year time.

**Peter:** Okay, we'll have to leave it there, Carlos. Sorry, we couldn't get to all the other questions, but really appreciate you coming to Miami to speak with us and, you know, what a great job you guys have done.

**Carlos:** Thank you very much, thank you everyone for being here.

**Peter:** If you like the show, please go ahead and give it a review on the podcast platform of your choice and be sure to tell your friends and colleagues about it.

Anyway on that note, I will sign off. I very much appreciate you listening and I'll catch you next time. Bye.

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