



**HARVARD**

Office of the Vice Provost for Advances in Learning



## **MODULE 6 UNIT 2**

### **Video 1 Part 2 Transcript**

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### What is the role of government and incumbents in regulating Pix and other FinTech innovations?

JOÃO MANOEL PINHO DE MELLO: I personally believe that, you know, markets are fantastic, and their innovation and profit seeking motives that drive the world. Having said that, incumbents can get comfortable with high margins previously established relationships with consumers. Going to be really candid here, in a certain sense, Pix took a little bit of controlling rights from incumbents in payments in Brazil. And if you were to think, might take analytically...and obviously this is, you know, hindsight, I think incumbents would have benefited from having themselves being a little more proactive in coming up with a solution themselves. I think they would have had more control rights. I'm not sure this would be as beneficial to society as the platform is now, but I think they would, from a purely incumbent point of view.

For FinTechs, the case of Brazil is a showcase in which the regulator here is an opportunity for FinTechs. I don't know how much one can generalize that for other countries. Brazil has peculiarities of a right or wrong, a diagnosis of 'room for improvement' in terms of competition. And then the regulator became a very pro-competitive stakeholder in the process. So, FinTechs largely benefited from this stance that the central bank of Brazil had, and for them it was an opportunity. And again, I don't know how much we can generalize that.

For governments, the toughest question that we had to...the toughest decision, are we going to provide this as state ownership? Which is estate ownership, because we do have the settlement platform ourselves, and the central bank of Brazil is the payment scheme owner. I think in some instances, coordination problems are so difficult to overcome, either because they're just difficult or because of conflicts of interests among players, that you have to go further than the regulatory mandate.

Finally, the regulatory mandate is absolutely crucial. In Brazil, what allowed us to launch Pix this successfully is that we solved the coordination problem on the payment service providers, making them participate in the platform. And this is because we do have a legal framework that is quite well designed. The first question one should ask is, does my legal framework provide the necessary regulatory mandate to whoever it is, sometimes it's the central bank, sometimes it's the bank supervisor, to actually impulse participation in this platforms. Obviously have some checks and balances to check regulatory abuse in the second phase.

### What is the Brazilian governments role in supporting FinTech and financial inclusion?

DE MELLO: In Brazil, the role of public policy has been crucial in fermenting and supporting entrance in general in FinTechs in particular. With not only Pix, but the previous agenda on payments, the regulatory role of the Brazil central bank has been sanctioned. I'm gonna give you a very concrete example. The un-bundling of payment services and banking services began much earlier than Pix. Brazil, I think, was one of the first countries to create this entities, which are payment institutions with prepaid accounts. And this has boomed, and this was a segment of the market that, you know, banks provide the service bundle and it's fine, but technology made it such that if you don't need it, you can bundle it.

And it was public policy and regulation that allowed the entry of this payment institutions. And they entered a segment that was basically unbanked before, and the reason was, well, there was more to be gained there. They wouldn't go face to face with the big incumbents. Then came Pix, and Pix is just one step forward then, which is, now that we have been seeing this financial inclusion coming specially from payments institutions, let's call them 'FinTechs' quote-unquote, can we improve on the quality of settlement speed functionality in a platform that is available and it's symmetric for everyone. And that was an one step forward in the sense that then the central bank provided the platform. So, we went even further than the regulatory mandate.

So, in the case of Brazil, the public policy and regulation had been fostering the entry by FinTechs. It could be the case that in other countries they would stiffen it. However, our view, the view of the Brazilian central bank, you should foster entry by FinTechs. But one could see arguments on regulatory symmetry, and arguments on financial instability, could lead to regulatory decisions that might stiffen it in the future.

### **What are some of the surprising ways that Pix's technology is being used?**

DE MELLO: On the positive side, we've been seeing people using Pix as social media to text other people. We never thought of that. People started to use Pix for texting because we added a functionality so that people could insert a 150 character message to identify payment. We believe that the reason is that you're authenticated, you know for sure where that's coming from.

Another one was leveraging on the authentication by the payments and the banking systems for security reasons. As I said, this is a high crime environment, so imagine that you had to go through the gate of one of this fencing communities and you use Pix to send a one dime Pix to the security guard, and then you're authenticated. Firms are offering this service now, payment firms, this is not a payment service, but they can do it and it's kind of nice.

