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Speech for Central Banking Autumn Meetings 2025 – Innovation and Competition: The Strategic Journey of the Central Bank of Brazil

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Good morning, distinguished guests.

It is a privilege to participate in this prestigious forum.

I have long admired the work of *Central Banking*, and I am honored to share insights on the strategy pursued at the Central Bank of Brazil.

The crucial challenge lies in fulfilling our mandate of financial stability while simultaneously fostering and safely integrating innovation.

The strategy we have adopted stands on four foundational pillars.

1. Proportional Regulation Aligned with Risk

Our first pillar is a regulatory framework that is proportionate to the risk associated with the activities of each institution.

This approach enables the coexistence of diverse financial entities.

On one hand, we support traditional banking institutions capable of delivering credit and financial services efficiently.

On the other hand, we have created space for specialized entities that provide payments (narrow banking) or grant loans on their own capital.

As a result of more competition, financial inclusion was greatly advanced by payment institutions and fintech lenders with tailored prudential requirements.

These entities, operating digitally and with lower overhead, have successfully reached segments of the population previously excluded from the formal financial system.

2. Digital Public Infrastructures that Level the Playing Field

The second pillar is the development of Digital Public Infrastructures.

To ensure genuine competition, we must equalize access to critical infrastructures.

This led to the development of two transformative initiatives: **Pix**, our instant payments system, and **Open Finance**, our open data ecosystem.

Both are designed as public infrastructures, accessible to all regulated participants under uniform conditions.

Pix, for instance, was launched as an open scheme with mandated participation from major account providers, ensuring immediate nationwide interoperability.

Open Finance, meanwhile, empowers consumers to share their financial data across institutions, thereby reducing informational asymmetries and fostering competition based on service quality rather than incumbency.

3. Collaborative Governance and Market Engagement

The third pillar is intense collaboration with market participants.

The Central Bank has established inclusive governance structures such as the **Pix Forum** and the Open Finance governance model, which incorporate stakeholders from across the financial ecosystem.

These platforms facilitate transparent decision-making and mitigate the risk of regulatory capture.

Through these mechanisms, we act not merely as a regulator, but as a facilitator of responsible innovation.

Learning from market stakeholders is essential for effective regulation.

4. Security and Stability as Cornerstones

The fourth pillar is our unwavering commitment to security and financial stability.

Innovation must be accompanied by robust safeguards.

The proliferation of digital payments has introduced new vulnerabilities, including a rise in social engineering fraud and cyber threats.

In response, we have implemented a comprehensive suite of regulatory enhancements to Pix, including improved identity verification, enhanced refund mechanisms, transaction monitoring, and stricter oversight of payment institutions.

These measures are designed to preserve trust in the system and ensure its resilience.

Pix: A Case Study in Inclusive Infrastructure

Pix exemplify our strategic approach. Conceived as public good, Pix offers instant, cost-free payments to individuals and businesses, dramatically reducing reliance on cash and expanding financial inclusion.

Today, Pix is utilized by Brazilians from all socioeconomic backgrounds, from urban professionals splitting expenses via QR code, to street vendors and micro-entrepreneurs accepting digital payments without the need for point-of-sale devices, to families transferring funds in emergency situations.

Pix has effectively democratized digital payments. Operating continuously, 24 hours a day, seven days a week, it enables transactions to be settled within seconds and maintains exceptionally high standards of availability and security.

Its cost-free nature ensures that even the smallest transactions, including those in the most economically vulnerable regions, are accessible to users without financial barriers.

This has significantly reduced reliance on cash and integrated millions of previously unbanked or underbanked individuals into the formal financial system.

It is important to underscore that Pix's success is not solely attributable to its technical architecture.

The foundation laid by prior regulatory reforms, particularly the adoption of proportional regulation and streamlined licensing, was instrumental.

These measures facilitated the entry of numerous new institutions into the payments and digital banking sectors, many of which targeted underserved segments of the population.

Fintech firms and neo-banks, for example, introduced simplified digital accounts via mobile platforms, often positioning themselves as cost-effective alternatives to traditional banking services.

By the time Pix was launched in late 2020, these institutions had already onboarded a substantial number of Brazilians into the financial ecosystem.

Pix amplified their impact by providing a ubiquitous, low-cost mechanism for transactions, thereby enhancing the utility and reach of their services.

In essence, Pix complemented the evolving financial landscape, enabling innovations from fintechs, payment institutions, and digital banks to interconnect seamlessly.

Conversely, the presence of these innovative providers helped catalyze Pix's adoption, as they were well-positioned to leverage and promote the system as a competitive advantage.

Open Finance: Empowering Financial Citizenship

Open Finance, our other flagship initiative, complements the broader strategic framework.

Implemented in progressive phases starting in 2021, Open Finance introduced structured data-sharing protocols across banking, credit, investment, insurance, and other financial domains.

By dismantling information monopolies, it has effectively leveled the informational playing field.

This means that, with the client's consent, a smaller fintech institution can assess a prospective customer's creditworthiness with the same depth and accuracy as a large incumbent bank.

Over time, this dynamic reduces the competitive advantage traditionally associated with institutional scale and legacy, shifting the focus toward service quality, pricing, and innovation.

Open Finance is already yielding tangible results: enhancing product offerings, increasing consumer mobility, and fostering market responsiveness.

To date, more than 100 million active data-sharing consents have been registered, and tens of millions of individuals have employed the system to secure better financial terms or consolidate their financial information.

This initiative is fundamentally advancing what may be termed financial citizenship: empowering individuals to assert control over their financial data and compelling institutions to compete based on merit, transparency, and consumer value.

Addressing Emerging Risks

Not every aspect of our innovation journey has been without challenges.

As financial inclusion and digitalization have advanced, they have inevitably introduced new risks, requiring the Central Bank to continuously adapt its regulatory framework.

Among the most pressing concerns has been the rise in fraud, particularly schemes rooted in social engineering.

While such scams are not novel, the digital era has significantly amplified their reach and impact.

In the context of real-time payments such as Pix, a fraudster who successfully deceives a user into initiating a transfer can receive funds instantly, thereby complicating timely intervention and recovery.

Specifically for Pix, we implemented a series of security-focused regulatory enhancements, which we believe offer valuable lessons for any jurisdiction deploying fast payment systems.

Key measures include:

- **Enhanced identity verification**: Pix participants, including banks and fintechs, are now required to verify that the individual registering a Pix alias (such as a phone number or email) corresponds to the identity recorded in national tax databases (CPF/CNPJ).

- **Improved refund mechanism (MED 2.0)**: We restructured Pix's Special Return Mechanism to facilitate the recovery of funds lost to fraud.

The updated protocol enables financial institutions to trace and block fraudulent transfers across multiple accounts.

Previously, if stolen funds were quickly moved through successive accounts, recovery was difficult.

The new mechanism allows for the freezing of assets even beyond the initial recipient, significantly impeding fraudsters' ability to "cash out."

- **Standardized fraud alerts for users**: A uniform "Scam Alert" message has been developed for use across all participating institutions.

If a transaction deviates from a user's typical behavior, such as a large transfer at an unusual time, the system will prompt a warning prior to authorization.

- **Overhauled enforcement and penalties**: The Pix Penalties Manual has been revised to strengthen enforcement.

Procedures for sanctioning non-compliant participants have been streamlined, maximum fines increased, and a new daily fine ("multa cominatória") introduced.

- **Objective fraud criteria**: We are establishing clear, standardized definitions for "founded suspicion of fraud" and "suspicion of fraud."

Though technical in nature, these criteria are essential for harmonizing responses across institutions and minimizing the risk of legitimate transactions being erroneously blocked. This measure remains under development.

Each of these measures represents a significant advancement in safeguarding the integrity of Pix.

While the focus here has been on fraud prevention, it is equally important to address the broader domain of cybersecurity.

Unlike fraud, which typically targets individuals and transactions, cyber threats pose systemic risks to institutions and infrastructure.

As previously noted, we have encountered incidents involving sophisticated cyberattacks on Pix participants.

These events exposed vulnerabilities in institutional defenses and third-party vendor arrangements.

The Central Bank treated these occurrences as systemic threats and responded by issuing new regulatory requirements.

We now mandate more comprehensive cybersecurity standards for third-party technology providers, recognizing that many vulnerabilities may originate in outsourced systems.

Drex and the Future of Tokenized Finance

Looking ahead, one of the most pressing questions facing central banks globally, including the Central Bank of Brazil, is how to effectively respond to the emergence of tokenized finance.

Technologies such as Distributed Ledger Technology (DLT), blockchain, and smart contracts are introducing new asset classes and novel transaction mechanisms, reshaping the financial landscape.

While discussions surrounding Central Bank Digital Currencies (CBDCs) and tokenized money have gained momentum internationally, many of these conversations remain theoretical and fragmented.

The practical challenge lies in determining how central banks can engage with these technologies in a manner that strengthens, rather than destabilizes, the financial system.

It is my firm belief that central banks must assume a proactive leadership role in this domain.

This does not imply that every central bank should immediately launch a digital currency or adopt a uniform technological framework.

Rather, it calls for central banks to guide the conversation, establishing foundational principles, and conducting structured experimentation.

This ensures that the evolution of financial infrastructure does not outpace regulatory oversight or fragment into incompatible systems.

Brazil's approach through the Drex initiative exemplifies this leadership posture.

In the first phase, conducted in 2023, we examined core technological trade-offs, particularly those involving privacy, scalability, and programmability.

Our findings confirmed that while high levels of privacy could be achieved, they came at the expense of transaction throughput, underscoring the inherent limitations of current DLT frameworks.

These are the types of nuanced realities that only emerge through rigorous, hands-on testing.

Building on these insights, we transitioned to the second phase of the Drex pilot, shifting our focus toward practical use cases.

The challenges identified in phase one, such as reconciling privacy with performance, persist and will not be resolved immediately.

Accordingly, we have adopted a two-pronged strategic approach. In the short term, we are pursuing a technology-agnostic path, prioritizing solutions that address existing market frictions using current infrastructure.

In the long term, we maintain a forward-looking posture. Should technological constraints be overcome - and we are confident that global research and development will continue to advance the frontier - we intend to be prepared to fully embrace it.

The central message is clear: central banks must serve as both innovators and standard-setters in the era of tokenization, ensuring that technological progress aligns with public interest and systemic stability.

Conclusion

In conclusion, the Central Bank of Brazil positions itself not as a competitor to financial institutions, but as a neutral enabler of innovation, competition, and stability.

What gives me confidence about the future is the collaborative approach we have institutionalized: **working together with the private sector, with other public authorities, and with international peers**. This cooperation is vital.

Thank you for your attention. I extend my gratitude to the organizers for this opportunity and wish all participants a productive and insightful conference.