

# Pagamentos Instantâneos

## Guidelines for the Brazilian Instant Payments Ecosystem

December 2018

## FOREWORD

In this paper, the coordinators of the Working Group on Instant Payments present the guidelines for the Brazilian instant payments ecosystem published by the Board of Governors in Communiqué 32,927, of December 21<sup>st</sup>, 2018, as well as the next steps in the execution of this project in Brazil. As published in the aforementioned Communiqué, the guidelines set out the basic ecosystem features, including rule-making governance, forms of participation, centralized settlement infrastructure, connectivity services and liquidity provision.

Inputs from the working group, which had contributions from various participants, and studies of solutions already implemented in other countries and regions of the world were considered in the definition of these guidelines. This version represents the decision of Banco Central do Brasil's Board of Governors over the several contributions.

Further detailing of these guidelines needs a more active participation of the potential ecosystem participants as well as of its end users.

## BASIC CHARACTERISTICS OF THE ECOSYSTEM

The ecosystem's basic characteristics, which make up the guidelines, are comprised of the following aspects: (i) rule-making governance; (ii) forms of participation; (iii) centralized settlement infrastructure (including its operation and settlement model); (iv) connectivity services between participants; and (v) liquidity provision.

The *ecosystem rules* will be defined by Banco Central do Brasil. The role of Banco Central do Brasil in the definition of these rules is necessary in order to coordinate the various agents involved and to create a competitive and efficient environment for the provision of this type of payment service in the country. Furthermore, the definition of the general rules of the ecosystem by Banco Central do Brasil is related to the following benefits:

- speeds up the provision of this type of payment service:
  - fosters convergence and standardization:
    - creates a less complex environment for the different payment service providers; and
    - makes it easier for end users to understand the service, stimulating its dissemination; and
  - promotes the development of solutions for the various use cases, including those with less commercial appeal, encouraging competition with other types of payment schemes already implemented; and
- facilitates the ecosystem's governance:
  - enables the inclusion of the opinions and positions of the various agents in the definition of the ecosystem's rules;

- guarantees open and non-discriminatory access to all institutions willing to participate in the ecosystem, promoting interoperability between all market agents;
- encourages non-bank participants with innovative business models that stimulate competition in value-added services to become a part of the ecosystem;
- lowers the cost of coordinating various market agents; and
- guarantees that the coordination of the various market agents will be carried out by a neutral institution.

In the process of forming the ecosystem's rules, Banco Central do Brasil will count on a permanent advisory committee, under its coordination, whose composition shall be defined in due time, including participants, connectivity service providers, and representatives of end users. The objective of this advisory committee is to subsidize Banco Central do Brasil in its normative attribution, aiming to accomplish the ecosystem's public objectives. Furthermore, it is important for keeping transparency in the definition of these rules, which is a key aspect for the construction of an instant payments ecosystem with the desired characteristics.

The ecosystem's *participation rules* will be open and flexible, fostering the development of innovative solutions and differentiated services that meet the end users' needs and guaranteeing that different types of service providers, such as banks, cooperatives, payment institutions, and payments initiation service providers, will be able to participate in the category that best meets their needs. With these participation rules, payment service providers will be able to focus on competition via price and via quality of payment services and value-added services that can be provided to end users.

The existence of a *single and centralized settlement infrastructure* is necessary to maximize the scale gains and those arising from the internalization of the network externalities which are typical in this industry. It can be implied, therefore, that the existence of a single settlement infrastructure maximizes the ecosystem's efficiency, lowering the cost of making payments for society as a whole. This layout, which involves cooperation in the settlement layer through the existence of a single infrastructure, can be observed in all countries that have instant payment solutions.

In the Brazilian instant payments ecosystem, Banco Central do Brasil will be responsible for operating the single settlement infrastructure, as it has expertise in operating these kinds of systems, such as the STR<sup>1</sup>; does not seek profit; and would be able to easily integrate this system with other databases, including for the purposes of supervision and anti money laundering. These factors make it easier for Banco Central do Brasil to develop and operate this infrastructure, which brings gains in terms of economies of scope and service pricing strategies.

Furthermore, the provision of this service by Banco Central do Brasil guarantees the necessary neutrality of the infrastructure and simplifies the settlement process of

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<sup>1</sup> Translator's note: STR – Brazilian RTGS operated by Banco Central do Brasil.



instant payment transactions in central bank currency, which reduces the ecosystem's financial risks.

The single settlement infrastructure will adopt the real time gross settlement mechanism, so that settlement will occur transaction by transaction, in its gross value, without the need of netting, which eliminates settlement risks associated with deferred net settlement mechanisms and reduces the cost of overseeing the risk mitigating factors of these types of mechanisms. The adoption of real time gross settlement models is a tendency that can be observed in all new instant payments settlement systems that are being implemented in other jurisdictions.

Besides the competition between payment service providers (PSP), the ecosystem's structure will also foster the existence of multiple providers of *connectivity services* (switch) for these payment service providers, enabling them to connect with the single settlement infrastructure. Although the main type of service offered by these entities is the connectivity in itself, it is important to note that other value-added services can be offered, as detailed in the Communiqué. The provision of these main and added services could be offered by any company that meets the minimum technical and certification requirements, which will be defined by Banco Central do Brasil in due time.

Two categories of *liquidity provision* are being drawn-up in order to guarantee the adequate functioning of the new infrastructure. During the STR's regular operating hours, which will not be changed for the new instant payments ecosystem, the direct participants will be able to freely move the funds between their Reserves Account or Settlement Account and the account they will hold in the new infrastructure. Outside of the STR's regular operating hours, it will be possible to use federal government securities under custody in the Special Settlement and Custody System (Selic) as a liquidity provision mechanism for the ecosystem, the rules and operational details of which will be defined by Banco Central do Brasil in due time.

## **NEXT STEPS**

The ecosystem's basic characteristics will be detailed throughout 2019 and 2020, together with the development of the single settlement infrastructure by Banco Central do Brasil. These definitions entail a more active involvement of potential ecosystem participants as well as end users, so that specific working groups will be created for this purpose. The themes of each working group and the way in which they will function will be defined in the first quarter of 2019.