CENTRAL BANK OF BRAZIL’S MISSION: ENSURING THE STABILITY OF CURRENCY PURCHASING POWER AND A SOUND, EFFICIENT, AND ‘JUST’ FINANCIAL SYSTEM

Alessandra von Borowski Dodl *

* Central Bank of Brazil, Brazil

Contact details: Central Bank of Brazil. Av. Cláudio de Abreu, 344, Centro Cívico, Curitiba, Paraná, 80530-914, Brazil

Abstract

This study assesses the convenience and timeliness of making changes to the Central Bank of Brazil’s mission. We undertake this analysis from the normative and practical approaches and consider the perspective of inclusive development and the National Financial System’s role to be the main determinants of the selected strategic solution. The insertion of justice into the institutional mission of the Central Bank of Brazil not only signals a new normative proposal for public policies in this arena but also publicly compromises all agents, suggesting an agreement that engenders the expectations of reciprocity and increased legitimacy.

The analysis is conducted through the political philosophy lens, based on the works of Rawls (1971, 2001) and Sen (1992, 2000, 2009). This approach focuses on neutralizing pre-existing views, as the purpose of this study is not to expand current results, but to question the governance structure of the National Financial System to select priorities and implement them. The advent of technology innovations emphasizes the opportunity for improvement, highlighting its risks and benefits. Therefore, the potential contribution of this study is to provide a policy-making alternative to promote publicly agreed objectives through governance structures.

Keywords: Central Bank, Governance, Development, Justice

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1. INTRODUCTION

This study assesses the convenience and timeliness of changing the mission of the Central Bank of Brazil (BCB), which is the main entity responsible for the execution of regulatory, supervisory, and organizational activities within the National Financial System (NFS). Considering its constitutionally established function of contributing to the development of the country (Figueiredo, 2008), the NFS takes a fundamental position in the basic structure that coordinates the performance of the Brazilian society.

BCB’s mission guides its performance but not as a static responsibility in force since the beginning of its creation in 1964, as internal and external events have found resonance in this statement, which summarizes the raison d'être of the entity. Based on constitutional precepts, we identify the objective associated with the activities of the NFS – the promotion of national development – as the root of the analysis.

We highlight the fundamental characteristics of the development process: inclusion, active agents' participation in the projects, evaluation, and construction of institutions that balance everyone, fairness, learning, and innovation. In the following, we present two political philosophy approaches: those of Rawls (1971, 2001) and Sen (1992, 2000, 2009). That is, we consider political philosophy at the core of the analysis, thus neutralizing pre-existing views on restrictions and advantages. The objective of this study is not to focus on how the NFS can expand current results, but to question how it is selecting alternatives of action and implementing them.

In addition to the theoretical approach, we present information on values, projects, and initiatives in other jurisdictions through an overview of innovative market ecosystems and what has motivated and driven them to direct their efforts in a particular direction. We thus provide an analysis of the conjunction of theory and practice. Finally, besides the theoretical perspective, this study is an outcome of years of experience as a central bank server.

The remainder of this paper is organized as follows. Section 2 presents the literature review, while Section 3 relates the methodological aspects. Section 4 discusses the applied analysis and provides insights on the performance of regulators/supervisors from four jurisdictions recognized for their financial development (the United States, the United Kingdom, Singapore, and Hong Kong). Lastly, Section 5 concludes the paper.

2. LITERATURE REVIEW

In this section, we use a conceptual and analytical perspective, starting from the objectives publicly agreed upon and formalized in the Constitution. Additionally, we analyze the institutional mission as the mechanism to formalize a new architecture for the NFS’s governance, establishing the connection between what is constitutionally provided and the exercise of the regulatory agency’s functions.

In the sequence, we draw on contributions from the literature to present the exclusion problem and techniques that can generate synergy for public policies. Subsequently, we use the works of Rawls (1971, 2001) and Sen (1992, 2000, 2009) to clarify the concepts that we refer to as fairness and justice.

2.1. Institutional mission of the regulator of the NFS

According to Figueiredo (2008), article 3 of the Constitution presents the fundamental objectives of the Republic, which include the provisions of article 192, entailing the NFS. He argued that a careful analysis of both constitutional statements clarifies that the activities performed by service providers according to article 192 must reconcile the purpose of obtaining profit with the submission to superior planning in the context of public policies.

The Constitution (1988) specifies the following (translated by the author):

Art. 3: Fundamental objectives of the Federative Republic of Brazil are:
I. to build a free, just, and solidary society;
II. to guarantee national development;
III. to eradicate poverty and marginalization and to reduce social and regional inequalities;
IV. to promote the good of all, without prejudice of origin, race, sex, color, age, and any other form of discrimination.

Art. 192: The national financial system, structured as to promote the balanced development of the country and to serve the interests of the collectivity, in all its parts...

Therefore, public policies focusing on Brazil’s financial system should consider the Republic’s fundamental objectives and be based on planning compliant with article 3 of the Constitution (Figueiredo, 2008). Consequently, we consider as basic principles for any initiative subject to the public policy guidelines: freedom, justice, solidarity, inclusion, and equality. From this perspective, we focus on the organization of the NFS, whose main body responsible for the execution of its supervision/regulation activities is the BCB (subordinated to the deliberations of the National Monetary Council), according to Law 4.595/1964.

Giacobbo (1997) clarified that strategic planning provides an entity’s main direction of action and changes the nature of its behavior from reactive to proactive. However, this mapping is not a static tool, as the external and internal environments of an organization are dynamic, constantly imposing new opportunities and risks and ultimately requiring changes due to the constant adaptation to reality.

As a primary component, de Oliveira (2010) identified that the “Mission is the determination of the central motive of the strategic planning…” (p. 82, 2010)

1. A congruent strategy to Rawls’s theory of justice conception, which specifies the repercussion of the basic structure on the entire society.

2. In this study, we use the concept of agent to represent the stakeholders in the mentioned projects. “I am using the term agent … in its oldest sense – and ‘greatest’ – of someone who acts and brings about change and whose achievements can be judged according to their own values and goals…” (Sen, 2000, p. 33; translated by the author).


4. There are other entities responsible for the NFS’s supervision/regulation activities. For more details on the organizational structure of the NFS, see Central Bank of Brazil (https://www.bcb.gov.br/estabilidadefinancia SemMeaning/sfn).
translated by the author). Further, Silva and Ramos (2015) addressed the importance of the growing efforts of adapting to customer demands, regardless of whether they are internal or external so that organizations - including public ones - can act effectively and efficiently. In detail, regarding the results of an organization, Drucker (2002) argued, “The fact that adequate attention is rarely paid to the company's purpose and mission is perhaps the single most important cause of a company’s frustration and failure” (p. 212, translated by the author).

The content of the mission should be direct and precise, in an accessible language, and should avoid dubious interpretations. As noted by Johnson, Scholes, and Whittington (2011) when addressing the mission statement and its connection to the general purpose of the organization, "it relates to the establishment of the understanding and trust in reference to how the strategy of the organization relates to that purpose" (p. 135, translated by the author).

Babb (2017) reflected the core of the proposal analyzed here as, “mission statements may also take on prescriptive roles when they inform the shape and direction of new initiatives and programs. Ultimately, mission statements are living documents, open to interpretation, and revision as institutions evolve and change” (p. 215).

Therefore, considering the strategic role of planning and the objective of national development, we now turn to the demanded characteristics of this development process. We focus on the aforementioned basic principles: freedom, justice, solidarity, inclusion, and equality.

### 2.2. Inclusive development and co-creation process

Traditionally, the debates on development were guided by economic growth, with the understanding that its positive effects would be projected from top to bottom, ultimately reaching all parts of society. Over time, however, the well-being of the population as a whole was not extended pari passu to material achievements (Van Gent, 2017). As the identification of economic growth with social inclusion was not confirmed in certain regions, social inclusion became important in itself, requiring a special focus, which is why the proposal of “inclusive development” has moved away from the idea of redundant expression and assumed a challenging characteristic (Johnson & Andersen, 2012).

Van Gent (2017) highlighted the emphasis that equity has recently received in the approach to development and also elucidated the focus of inclusive development by referring to how social and material results are divided, without neglecting the deeper causes and factors that perpetuate the exclusion and marginalization of the least favored. Furthermore, the application of inclusive development can be identified within different national and international organizations, such as the World Bank and the Organisation for Economic Co-operation and Development, as it represents an important change in the approach to the issue, with the idea of social inclusion taking a prominent position in the discussions (Johnson & Andersen, 2012).

Corroborating this understanding, Van Gent (2017) explained, “The adoption of the SDGs [Sustainable Development Goals] somewhat illustrates the impressive change in development thinking over the last few decades” (p. 8). In this sense, the World Bank's (2017) Governance and the Law presented three essential components for policy effectiveness - commitment, coordination, and cooperation - to achieve the development of a society under the focus of freedom (in reference to the theory of Sen, 1999) thus highlighting the centrality of the governance process for achieving concrete results.

Gupta, Pouw, and Ros-Tonen (2015) argued that inclusive development requires a constant critical view on social, political, and economic interactions, while also posing questions on who enjoys benefits and who remains excluded, the reasons for these results, and what can be done to include marginalized categories (see also Acemoglu and Robinson, 2012; Kim, 2020; World Economic Forum, 2018).

Institutions, governance, agents’ interactions monitoring, fairness, freedom, and learning are terms related to inclusive development. But, for the broader understanding of innovation processes, and social and economic advances, we highlight the argument of Johnson and Andersen (2012), “the assumption that innovation is rooted in interaction among diverse agents... and the definition of innovation systems as experience-based learning among workers and consumers” (p. 8). Corroborating this point, Paunov (2013) stated, “By innovation this report understands...also innovation based on practice rather than formal R&D, and social and business innovations. Many of the relevant innovations in the development context are of the latter types” (p. 6).

However, incorporating new agents in the conception and implementation of strategies, in general, is not a task to be conducted without adequate reflection and examination (see Johnson and Andersen, 2012; Ramaswamy and Gouillart, 2010). Therefore, focusing on synergies, we consider the literature on co-creation processes, competence networks, open business models, and open innovation for this discussion (see Holm, Günzel, and Ulhoi, 2013; Martovoy and Dos Santos, 2012; Prahalad and Hamel, 2005; Prahalad and Krishna, 2008; Prahalad and Ramaswamy, 2004; Sheth and Hellman, 2018; Weiblen, 2014).

Ramaswamy and Gouillart (2010) noted that among the returns obtained by co-creative enterprises are increased productivity-creativity and new business models. The co-creation paradigm refers to the participation of customers, employees, suppliers, and other stakeholders who can contribute to new solutions. Among the principles of co-creation are the need to generate value for all stakeholders - so that real engagement can occur - and the relevance of the potential of direct interactions between parties.

Considering partnership and purpose identification, we refer to open innovation and open business models and emphasize their role in assimilating and consolidating the ideas above. Haro, Martinez-Canas, and Martinez-Ruiz (2014) argued that “the model of closed innovation... shifted to a model of open innovation that sought to include the ideas of other agents,
external to the organization” (p. 71). Furthermore, Weiblen (2014) clarified that an ecosystem includes the stakeholders of a specific company, while an open business model is related to the establishment of partnerships for centrally creating and capturing value within the ecosystem. An open business model does not just refer to the associations that result from marginal contributions, but rather to the relational structures that integrate the essence of the proposal.\footnote{Weiblen (2014) conducted an interesting investigation on the open business model, as there are different views on defining this concept.}

In sum, inclusive development entails cocreating the processes in which the agents participate, considering all stakeholders, and taking into account adequate scrutiny and ponderation. To further understand this approach, we now focus on the relevance of equality and fairness and, consequently, justice. For this purpose, we use the works of Rawls (1971, 2001) and Sen (1992, 2000, 2009).

2.3. Justice: The contributions of John Rawls and Amartya Sen

As Sen (1992) stated, “What is of direct interest is the plausibility of claiming that equal consideration at some level - a level that is seen as important - is a demand that cannot be easily escaped in presenting a political or ethical theory of social arrangements,” (p.18) and further explained, “So what is fairness? ...central to it must be a demand to avoid bias in our evaluations, taking note of the interests and concerns of others as well... It can broadly be seen as a demand for impartiality” [emphasis added] (Sen, 2009, p. 54).

2.3.1. Fundamental concepts in John Rawls

John Rawls’s conception of political justice, justice as fairness, outlines the conceptual basis for the analysis regarding the idea of a political society, which has reasonable and rational citizens, that are free and equal, the basic structure, principles of political justice, and freedom as an essential instrument for carrying out life plans.

Considering the limitations of Rawls’s thesis, presented by himself in his work from 2001, we highlight the clarification that the object of study is a well-ordered society, which is associated with the perception of an ideal theory in justice as fairness. In line with the author’s argument, a well-ordered society is similar to a theory of strict compliance, in which nearly all citizens act in conformity with the principles of justice. “In this way, justice as fairness is realistically utopian: it probes the limits of the realistically practicable...” (Rawls, 2001, p. 13).

Rawls explained that the debate related to democratic thought at that time (A Theory of Justice was published in 1971) showed significant interest in the best concept of justice under reasonably favorable conditions for a democratic society, hence the focus on the ideal theory. Nevertheless, some contribution should also be made to the understanding of a non-ideal theory based on the concept of a well-ordered society, that is, insights into how to deal with the challenge of addressing existing injustices, “It should also help to clarify the goal of reform and to identify which wrongs are more grievous and hence more urgent to correct [emphasis added]” (Rawls, 2001, p. 13).

The primacy of the basic structure in Rawls’s (1971, 2001) conception of social justice, in which the Constitution of a country is an important reference, contributes to the organization of the analysis in this study. As da Silva (1998) clarified, “The basic structure designates the main political, social, and economic institutions of this society, and the way in which they are combined in a system of social cooperation” (p. 209, translated by the author). Rawls (1971, 2001) mentioned its poignant interference in individuals’ plans and way of being, as well as in the opportunities these individuals may enjoy and their capacity to do so, “The basic structure is the primary subject of justice because its effects are so profound and present from the start” (Rawls, 1971, p. 7).

According to Rawls (2001), political society can be understood as a fair system of cooperation between free and equal citizens for a lifetime and between generations. Its foundations - the principles of political justice - are a framework that grants it unity and acts as a marker for the basic structure. The nature of principles in justice as fairness expresses a conception of pure procedural justice, that is, it has the purpose of establishing process considered fair for the resolution of problems, with the objective of generating appropriate decisions, but without a previously established criterion on what is a fair outcome\footnote{Sen refers to Rawls’s emphasis on the kind of process that sustains social arrangements, “by insisting on the need for procedural fairness under the first part of the second principle, Rawls provided a significant enrichment of the literature on inequality in the social sciences, which has often tended to concentrate too exclusively on disparities in social status or economic outcomes, while ignoring disparities in the processes of operation...” (Sen, 2009, p. 64).} - pure procedural justice obtains when there is no independent criterion for the right result: instead there is a correct or fair procedure such that the outcome is likewise correct or fair...” (Rawls, 1971, p. 86).

The core of the purpose of social cooperation comes from the acceptance of those who submit to public rules of conduct deemed appropriate, whose conditions for the exercise of cooperation are understood as just under a conception of reasonability. Connected to the idea of just cooperation, reciprocity is present when all individuals benefit as expected from what is publicly agreed upon. Furthermore, the willingness to cooperate is in line with the vision of individual good, being, therefore, a rational decision (Rawls, 2001). The author considered that individuals are able to socially cooperate over time, meaning they hold two moral powers - a sense of justice and one of good - which make them equal\footnote{The sense of equality also refers to the decision in the original position (deliberative power on equal grounds) by all individuals represented, as holders of “vote” symmetry to establish an agreement on the principles of justice at that time (Rawls, 2001).}

Another basic concept in Rawlsian theory is that of primary goods, which can be referred to as necessary enablers, not just desired/preferred ones, so that cooperative citizens in a society can have the expectation of diverse achievements. They are equivalent to the instruments (e.g., self-respect and freedom) that make it possible to achieve the objectives and purposes considered of value in a given normative context; these are the minimum prerequisites for individuals to pursue their plurality of purposes - personal and as citizens -
over time and through the various phases of their lives (Rawls, 1971, 2001).

Contested by Sen (2000) regarding the inflexible nature of an index of primary goods to be just, Rawls (2001) answered pointing to the Aristotelian point of view, considering not only capability, but also the proposal of primary goods and the basic capabilities of Sen, in which the former is a crucial means for the pursuit of the latter25. Rawls (2001) also identified the two moral powers of his theory as being among the most important basic capabilities. The function of primary goods is to enable rights and opportunities, as well as the assumption of responsibility, for free and equal citizens.

Finally, the value of freedom is evident and a priority for Rawls (2001), but is not axiomatic. He clarified that, for the two principles of justice, there exists a lexicographical order (priority of basic freedoms), which is interpreted as a result of the consistent search efforts for the general conception of justice in the long term, under positive/convenient conditions, and relativized his argument, making it clear that less urgent demands are those that remain as advances in well-being occur and before there is a higher influence of the different environments of the new desires, “Until the basic wants of individuals can be fulfilled, the relative urgency of their interest in liberty cannot be firmly decided in advance. ... But under favorable circumstances, the fundamental interest in determining our plan of life eventually assumes a prior place” (Rawls, 1971, p. 543).

2.3.2. Considerations on justice by Amartya Sen in reference to John Rawls

The conception of capabilities26 in Sen sheds light on important aspects of this study and can be reconciled with the conceptual structure provided by justice as fairness, which we use to organize the analytical framework. The proposition of development as freedom, with the expansion of agents’ capabilities to conduct their lives as they believe to be of value (Sen, 2000), paves the way for individual and social accomplishments by the identification of the most urgent problems, which demand priority in their articulation. In the wake of Sen’s capability approach and moving forward in his exposition of agents’ effective power and obligations, the concept of agency freedom not only represents benefits to individuals in the most obvious sense, that is, having the opportunity to choose and carry out their life plans but also generates results regarding the responsibilities/obligations of decision-makers27: “[It] would be a mistake to see capability, linked with these ideas of freedom, only as a notion of human advantage: it is also a central concern in understanding our obligations [emphasis added]” (Sen, 2009, p. 271).

To clarify this point, we use two propositions of Rawls (1971), since they present synergy with the theoretical framework of Sen, that is, the idea in the Aristotelian point of view, and the limits on penalties for inappropriate behavior. Specifically on the former, “other things equal, human beings enjoy the exercise of their realized capacities (their innate or trained abilities), and this enjoyment increases the more the capacity is realized, or the greater its complexity” (p. 426)28.

On the other hand, Rawls (1971) argued that agents’ inability to do or not do something should be considered when the event generating a penalty occurs, “[A] legal system should recognize impossibility of performance as a defense, or at least as a mitigating circumstance. In enforcing rules, a legal system cannot regard the inability to perform as irrelevant” (p. 237). Sen evidenced a similar position on this aspect, which we analyze in the next section; here, however, we emphasize a passage from Desenvolvimento como Libertade, which conveys a realistic perspective on the roles of agents, “The arbitrarily restricted view of individual responsibility is the individual placed on an imaginary island, without being helped or hindered by others must be broadened, recognizing not only the role of the State but also the functions of other institutions and agents” (Sen, 2000, p. 323, translated by the author).

Sen stressed the preponderance of substantive freedoms for the development of society, but saw them in a context of interactions between agents, emphasizing the fundamental aspect of promoting them in an integrated manner in the economic, social, and political dimensions and involving different action arenas, as governments and educational and market organizations. He also argued that individuals should not be passive beneficiaries, but participate actively in building their future.

In the logic of social choice in Sen, where the evaluation between different options implies a process of deliberation to select the best way to reduce deprivations of freedoms, instrumentality cannot be neglected, “Political rights, including freedom of expression and discussion, are not only central to the induction of social responses to economic needs but also central to the conceptualization of economic needs themselves” (Sen, 2000, p. 181-182, translated by the author).

Sen (2000) argued that the institutional framework is not enough to ensure that agents are able to lead lives they deem worthwhile; he also claimed that the main focus should not be on the means, but on the ends that can be achieved. However, Sen made clear how important are the institutions and their relation with the agents in terms of promoting freedom. “These capabilities can be increased by public policy, but also, on the other hand, the direction of public policy can be influenced by the effective use of people’s participatory capabilities” (p. 32, translated by the author).

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25 Later, Sen (2009) argued, “However, if my reading of Rawls’ motivation in using primary goods is right (that is, to focus indirectly on human freedom), then I would argue that a move from primary goods to capabilities would not be a foundational departure from Rawls’ own programme, but mainly an adjustment of the strategy of practical reason” (p. 66).

26 “A person’s ‘capability’ consists of the alternative combinations of functionings whose performing is feasible for them. Therefore, capability is a type of freedom: the substantive freedom to perform alternative combinations of functionings (or, less formally expressed, the freedom to have different lifestyles)” (Sen, 2000, p. 181, translated by the author).

27 Sen (2009) stated that “Taking note of agency achievements or agency freedom shifts the focus away from seeing a person as just a vehicle of well-being, to the importance of the person’s own judgments and priorities, with which the agency concerns are linked” (p. 288).

28 However, we mention the importance of considering the satisfaction of exercising the skills developed by the authors depending, for example, on the level of redundant information (stimulus/challenge considerations versus frustration), which should be considered in the sizing the well-being potential to be achieved by incorporating innovations or new ways to perform tasks of old functions (see Scitovsky, 1992).
In terms of public policy choices, Sen (2000) exposed the central role of the informational base in the evaluations carried out, “the character of the approach can be strongly influenced by insensitivity to excluded information” (p. 74, translated by the author). Further, “The informational base of normative theories in general, and justice theories in particular, is of decisive importance, and can be the crucial focal point in many practical policy debates...” (p. 76, translated by the author).

Therefore, based on the approaches of Rawls and Sen, we highlight the central role played by impartiality in making public decisions and the importance of selecting the appropriate informational base when analyzing priorities. The procedures followed to organize rights and duties must consider the interests of all involved – a context guided by the objective of fairness.

3. METHODOLOGY

We conduct a qualitative analysis using normative and practical perspectives. This analysis is primarily undertaken through the political philosophy lens, based on the works of Rawls (1971, 2001) and Sen (1992, 2000, 2009). This approach aims to neutralize pre-existing interpretations, as the purpose of this study is to question the ability of the NFS’s governance structure to select priorities and implement them effectively.

The guidelines for the performance of the NFS are specified in the main component of the basic structure coordinating the decisions within Brazilian society. Thus, the discussion focuses on the policymaking process through the governance structure, maintaining the Brazilian Constitution as the prescriptive reference throughout the study.

The conjunction of the theoretical perspective on inclusive development and the applied analysis anchored in innovative market ecosystems provides the actual context for the normative examination. Finally, although the study entails the relevance of all stakeholders, the financial services consumers are addressed to illustrate concrete situations and support the policy proposal.

4. RESULTS AND DISCUSSION

Considering the analyses developed in the previous section, we highlight some points: 1) the NFS must consider national development when performing its functions; 2) freedom, justice, solidarity, inclusion, and equality are the basic principles of the Brazilian society; 3) developing an inclusive process for the society entails stakeholders' active participation; 4) active participation of relevant stakeholders means broadening the informational base; 5) selecting the right amount of agents in each process is crucial to its efficiency; and 6) impartiality is fundamental.

Therefore, to analyze the current governance paradigm of the NFS and the proposal of mission change, we focus on BCB’s mission – specifically on its role as the financial system regulator/supervisor – and strategic issues in influential financial markets (the United States, the United Kingdom, Singapore, and Hong Kong) in subsection 4.1, and the practical perspectives in subsection 4.2.

4.1. Insights from strategic issues

Barros (2011) addressed the BCB’s mission changes from its emphasis on inflationary control to concerns about the stability-soundness of the financial system and, subsequently, its efficiency. Referring to the 2001-2002 period, when the stability of the NFS was added to the mission in 2001 and then replaced by soundness in 2002, he reflected, “Once again, it reacted, in a reflex way, to a new enemy revealed with monetary stability... and by the globalization of financial markets: the succession of international financial crises that destabilized economies, especially those based on fragile financial systems” (p. 10, translated by the author).

Barros also highlighted the reactive attitude of governments in the face of crises or other serious issues, which finds resonance in the literature on banking crises (on the risks of mistaken decisions in situations characterized by pressure for solutions, see Calomiris, 2011; Calomiris and White, 1994). In line with the literature on inclusive development, he based the addition of ensuring the efficiency of the NFS to BCB’s mission in 2007 on the aspects of financial exclusion as the pressure exerted by society on policymakers and international bodies in the previous years. “Monetary stability and financial soundness, while fundamental, did not seem to be sufficient for the financial systems to do their work with social effectiveness” (Barros, 2011, p. 11, translated by the author).

Since then, BCB’s mission has remained the same, “To ensure the purchasing power stability of the domestic currency and the soundness and efficiency of the National Financial System”, and its current organizational values are: integration, ethics, excellence, commitment with the Central Bank, focus on results, transparency, social and environmental responsibility”.

Insights from four reference markets

To expand the understanding of current strategic approaches of reference markets, we offer insights from the missions and objectives of financial system regulators in four markets (the United States, the United Kingdom, Singapore, and Hong Kong), selected considering the Financial Development Index (World Economic Forum, 2012), and also the Global Financial Centres Index (GFCI) 24 and 25 (Long Finance, September 2018 and March 2019)13. Initially, we propose a strategic framework outlining each market’s statements and, in the sequence, we highlight some specific aspects of the regulators’ stance and performance.

14 The index consists of seven pillars. The four markets we identified (the United States, the United Kingdom, Singapore, and Hong Kong) are in the top positions. We also look at the ranking for two pillars that we consider fundamental to the analysis: institutional environment and business environment. Additionally, according to the Global Financial Centres Index 24 of September 2018 and the Global Financial Centres Index 25 of March 2019, New York, London, Hong Kong, and Singapore are at the highest positions. The GFCI 28 of September 2020 features New York, London, Hong Kong and Singapore as the 1st, 2nd, 5th and 6th places in the ranking (https://www.longfinance.net/programmes/financial-centre-futures/global-financial-centres-index/).
Here we address some aspects of regulators' performance in the four markets listed above:

Office of the Comptroller of the Currency (OCC, United States). The term fair appears twice in its mission and, in both cases, involves consumers of financial services; specifically, in terms of access to the services and treatment of consumers. An example of projects undertaken by the OCC is the initiative implemented in 2015, whose scope was “to better understand innovation occurring in the financial services industry and to develop a framework to support responsible innovation in the federal banking system...the OCC conducted extensive research and held numerous discussions with fintech companies, banks, community, and consumer groups, academics, and other regulators.” Further, in October 2016, the Office of Innovation was established “to serve as a clearinghouse for innovation-related matters and a central point of contact for OCC staff, banks, and nonbanks. Conduits outreach to a variety of financial services stakeholders” (OCC, 2017, p. 1).

Financial Conduct Authority (FCA, United Kingdom). In the report Our Mission 2017: How we regulate financial services, the entity considers different perspectives to define its priorities, “This Mission is the result of a number of critical factors coming together which affect financial services, consumers and regulators. Demographic and economic changes, evolving technology, increasingly complex consumer needs and the FCA’s finite resources require us to be very clear about what we prioritise and why” (FCA, 2017, p. 3). Additionally, it reinforced the focus on accountability as follows, “This Mission provides the framework for the strategic decisions we make, the reasoning behind our work and the way we choose the tools to do it” (FCA, 2017, p. 3).

Monetary Authority of Singapore (MAS, Singapore). The entity engages in promoting competitiveness and innovation in financial services. As an example, in 2015, the Financial Technology & Innovation Group was structured with the purpose of carrying out actions related to the construction of a Smart Financial Centre, emphasizing the use of technology to stimulate efficiency and opportunities. The proposal is for the financial system to be an integral part of “Singapore’s ambition to be a Smart Nation”. Examples involving the formation of partnerships are the API Exchange, E-Payments, and Project Ubin.

Hong Kong Monetary Authority (HKMA, Hong Kong). The entity proposes a financial system with strong technological content and the idea of smart banking. Its 2019 annual report states the following, “To strengthen Hong Kong’s position as a fintech hub in Asia, the HKMA puts great effort into implementing the seven Smart Banking initiatives that were announced in September 2017, with an aim to facilitate the development and use of fintech in the banking and payment industries” (HKMA, 2020, p. 115). These initiatives are: 1) Faster Payment System; 2) enhanced Fintech Supervisory Sandbox 2.0; 3) promotion of virtual banking; 4) Banking Made Easy initiative; 5) Open Application Programming Interface; 6) closer cross-border collaboration; 7) enhanced research and talent development.

Survey Summary (the United States, the United Kingdom, Singapore, and Hong Kong)

We identify different formats in the way the jurisdictions communicate their objectives and missions, with technological initiatives pervading all spheres of action. There exists a concern with consumers, as well as with the efficient offer of financial services. We also highlight some strategic components: 1) diversity; 2) responsible innovation;

Table 1. Strategic framework: Regulator, strategic statements, and jurisdiction

<table>
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<tr>
<th>Regulator/supervisor</th>
<th>Mission/functions/objectives</th>
<th>Jurisdiction</th>
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<tbody>
<tr>
<td>Office of the Comptroller of the Currency (OCC)</td>
<td>Mission: to ensure that national banks and federal savings associations operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.</td>
<td>The United States</td>
</tr>
<tr>
<td>Financial Conduct Authority (FCA)</td>
<td>Strategic objectives: to ensure that relevant markets function well. Operational objectives: - protect consumers (to secure appropriate protection for consumers); - integrity (to protect and enhance the integrity of the UK financial system); and - promote competition (to promote effective competition in consumers’ interests).</td>
<td>The United Kingdom</td>
</tr>
<tr>
<td>Monetary Authority of Singapore (MAS)</td>
<td>Mission: to promote sustained non-inflationary economic growth, and a sound and progressive financial center. Functions: - to act as the central bank of Singapore, including the conduct of monetary policy, the issuance of currency, the oversight of payment systems, and serving as banker to and financial agent of the Government; - to conduct integrated supervision of financial services and financial stability surveillance; - to manage the official foreign reserves of Singapore; and - to develop Singapore as an international financial center.</td>
<td>Singapore</td>
</tr>
<tr>
<td>Hong Kong Monetary Authority (HKMA)</td>
<td>Policy objectives: - to maintain currency stability within the framework of the Linked Exchange Rate system; - to promote the stability and integrity of the financial system, including the banking system; - to help maintain Hong Kong’s status as an international financial center, including the maintenance and development of Hong Kong’s financial infrastructure; and - to manage the Exchange Fund.</td>
<td>Hong Kong</td>
</tr>
</tbody>
</table>

16 To better understand the strategic statements and support the analysis, we also assessed other regulators/markets: Bank of Canada, Bundesbank, Australian Prudential Regulation Authority, Australian Competition and Consumer Commission, Banque de France, and Autorité de Contrôle Prudentiel et de Résolution.

3) in-depth knowledge of innovations with consumer participation; 4) consumer needs in increasing complexity; 5) limited resources of the regulator, and 6) demand to know what and why to prioritize. Finally, we refer to partnerships as enablers of projects, with broad involvement of agents.

4.2. Normative and practical perspectives to the incorporation of justice in BCB’s mission

The basic structure in the applied case is represented by the Brazilian Constitution and the principles contained therein, as well as the regulatory ramifications that we call immediate, that is, the broad institutional arenas arising from that structure. Specifically, we focus on the issues related to NFS and BCB.

Sen (2000) emphasized the importance of the informational base and its concrete understanding to evaluate a situation submitted to public policy decisions; this finds resonance in the proposal of this study, in which we highlight the focus on the active and equitable participation of stakeholders in the elaboration, implementation, and evaluation of projects, especially those most affected by the initiative. In other words, this refers to a better understanding of the concept of governance, so that more effective policies are implemented (World Bank, 2017; also see Moro Visconti, 2019; Sikarwar and Sharma, 2020).

We turn to the point where Rawls and Sen converge on the urgency of treatment for more serious injustices. We also deal with the prioritization of efforts and limited resources and, therefore, with a true understanding of what is most urgent, which requires accurate knowledge under different interpretations.

The perspectives of agents who are absent from the debate reflect the exclusion of a specific type of information, “information exclusions are important components of an evaluation approach. Excluded information is not allowed to have a direct influence on evaluative judgments…” (Sen, 2000, p. 74, translated by the author).

We illustrate this theoretical perspective by referring to a practical example, which makes use of the foresight technique in the elaboration of an innovation project, as analyzed by Andersen and Andersen (2016). Two cases were presented in the text, one in Brazil and another in South Korea. In the Brazilian episode, the authors argued, “From these foresight activities has emerged the insight that broad inclusion is increasingly important for policy and strategy impact” (p. 17). The project studied was the Plano Estratégico Setorial (PES, 2004-2008), with the objective of increasing the competitiveness of the industrial sector in Brazil under the participation of several stakeholders.

Among the factors that contributed to the success in conducting the work, we mention the generation of value for those involved, as “PES thus goes beyond both setting research agendas and expert-based foresights to focus on realizing structural change via inclusive processes” (Andersen & Andersen, 2016, p. 20). In parallel to using the foresight technique with a focus on the long term, consulting projects were set up for solving the short-term problems that worried industry representatives. These short-term investments were minimal vis-à-vis the whole PES; however, they linked short- and long-term aspects. “These projects were used as ‘bait’ for industry commitment and made industrial actors experienced that they had influence, which in turn earned the ABĐI and PES legitimacy [emphasis added] (Alvarez, 2012)” (Andersen & Andersen, 2016, p. 22).

We now refer to the Constitution and the principles contained therein, and to the expansion of human capabilities. Regarding the principles, we note the guarantee of freedom and equality to those who live in the national territory (caput of article 5 of the Constitution) and, as a mechanism to achieve these objectives, we highlight the promotion of consumer protection, the form of the law, by the State (item XXII of article 5), in addition to article 3 (with the additional principles of justice, solidarity, and inclusion, which we explained in Section 2).

Furthermore, from the perspective of primary goods in Rawls (of which the goods provided by the government are part), we argue that promoting equitable participation among agents for the reform and construction of the institutional framework represents an advance in the expansion of rights and opportunities, such as freedom of participation and discussion. We also mention self-respect/self-confidence as primary goods developed as freedom of agency is expanded.

Similarly, we stress the concept of primary goods to understand the relationship between the prerequisites for living a worthwhile life within the publicly agreed scope and the achievement of capabilities. The perception of equity and closeness in the elaboration of rules that will guide future relationships changes the standpoint of agents who are involved in these processes. From another perspective, “Retail banking should be a sustainable market, one where firms focus not just on what happens today, but also in the long term. Culture and ethics will be a key aspect...” (emphasis added) (Woolard, 2017).

As in Rawls (1971), concerning the relationship between the responsibility of individuals and the conditions to make decisions and assume consequences, Sen (2000) clarified the existence of a circular process between freedom and responsibility, “Without the substantive freedom and the capability to accomplish something, the person cannot be responsible for doing it. But having effectively the freedom and the capability to do something imposes on the person the duty to reflect on whether or not to do it, and this involves individual responsibility” (p. 322, translated by the author). As previously mentioned, the basic structure of the Brazilian context refers to the State the consumer’s protection, in the form of law. Moreover, the voluntary reception of a public agreement is associated with the perception of fair conditions and reciprocity in their application.

The missing link: Evidence on the timeliness of changing BCB’s mission

Here, we consider initiatives in different markets that contribute to the timeliness evaluation

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17 The authors referred to Alvarez (2012); Manager of International Affairs at ABĐI, to describe the factors that supported the Brazilian Agency for Industrial Development’s way of acting (with the use of foresight techniques), whose reference is an interview granted by him.

18 The approach to the opportunity and depth of the financial services digitalization’s impact on the NFS and society as a whole results from José Renato Barros’s comments and suggestions, a BCB server, who pioneered the development and use of technology in information businesses in Brazil.
of changing the governance paradigm. The digitalization of financial services has become a clear trend in recent years, whose impact on the agents’ lives may take on a positive or negative sense, depending on their progress (see OECD, 2018a, 2018b)21. Busquets (2017), reviewing the literature on financial systems conduct, addressed the asymmetry of information, power, and resources between consumers and financial service operators as the reason for perceiving the consumer’s protection as necessary (Rutledge, Annamalai, Lester, & Symonds, 2010), since the 2008 crisis, the regulation on conduct has gained prominence in the discussions and actions of the countries22. In this sense, Calvo, Crisanto, Hohl, and Gutierrez (2018) presented a broad survey on post-crisis supervisory structures in several jurisdictions, analyzing micro/macropraudential, resolution, and conduct responsibilities.

We point out the active involvement of the most affected stakeholders in the initiatives for identifying urgent problems and building solutions as the link in the current scenario. This is related to sharing in the process of reform, elaboration, and implementation of a financial system that meets current technological trends, but, mainly, more dynamism and a higher degree of communication and understanding among stakeholders.

The OECD (2018a) referred to the importance of strengthening digital financial literacy as a result of the digitalization of financial services and to the challenges and opportunities that the digital age presents to agents “in light of the unique characteristics [emphasis added], advantages, and risks of digital financial services and channels” (p. 3). On the significance of fintech development for a central bank’s mandate in terms of risks and opportunities, Aaron, Rivadeneyra, and Sohal (2017) mentioned, “If these developments change the relationships that underpin the traditional tool kit of policy making, central banks will need to develop new models and operational frameworks [emphasis added]” (p. 2)23.

The approach we defend here advocates an institutional advance within the basic structure, that is, a new governance proposal for the financial system. In other words, regardless of whether the concern or opportunity arises from information and communications technology, demographic or cultural changes, or another source of questioning, the conception of justice for the institutional mission is intended to be structural, which tends to generate internal and external linkages to the BCB.

To clarify this point, we reiterate the relation to Barros (2011), when we mentioned the State’s reactive stance in the face of moments of great difficulty and repercussions. An operational adaptation in the regulator’s activities in response to innovations brought about by third parties maintains the stimulus-reaction nature of the governance of the regulatory process. Put another way, for an effective change in the posture—from reactive to active (meeting the concerns of Barros, 2011 and those expressed by Johnson and Andersen, 2012), we emphasize the importance of mapping the future. In this sense, there is a need for expansion, regularity, and timeliness in the interactions, regarding the informational base that supports the formulation and implementation of public policies, with the incorporation of stakeholders’ perspectives, as well as their institutionalization.

The nature of the new in what we have witnessed through diverse uses of technology questions the previous knowledge and skills developed over time by the regulators/supervisors in the evaluation of business models: do they remain appropriate for evaluating what has emerged? Or, more importantly, would it be possible that the old skills led to wrong conclusions, considering that the experience under the previous paradigm may suggest that the risks are difficult to manage, while, under the new way of operating, the opaque risks of the past could take on another interpretation?

Hence, we emphasize the importance of equitable participation of stakeholders in this system, especially of those most affected by its definitions, as well as of the selection of informational bases used. Woolard (2017) explained that “[retail banking] should be a competitive market - one where consumers, including the most vulnerable, are at the heart of everything a firm does. That means offering choice and good value for money, treating customers fairly, and fostering innovation in their interests”.

To illustrate this point, we suggest an example focusing on the consumers as the core concern, however, this does not imply that their priority is permanent. We suggest a situation in which: 1) the regulator identifies a high risk of an innovative project, as it understands the consumer is not able to properly use the service; and 2) its interpretation corresponds to the reality, thus, in fact, the consumer does not have the necessary ability to manage the service at that moment. However, if there is a routine contact between the regulator and consumer, with adequate skills developed to conduct the required analysis, it is possible to realize that, although the target audience does not have the necessary qualifications to enjoy the benefits offered, the consumer can recognize the new experience as being of great relevance to their lives and, thus, be willing to dedicate themselves to the necessary learning for using the innovation. We refer here to the Aristotelian principle and the importance of the stimulus in Scitovsky (1992).

Therefore, an earlier conclusion by the regulator from a narrower group of interpretations can be weighed against information obtained from other viewpoints. The strategy for implementing the new technology can be influenced, either in terms of the time of each stage or the design of the business model. The relative weights for the different perceptions can also change, considering that some variables, previously ignored, were added.

22 Busquets reviews extensive literature for her work, included in BCBS’s (2017) publication, Estudos sobre Regulação Financeira. We only mention some of the studies directly related to the arguments here: Duke (2009), Rutledge (2010), Akinbami (2011), Financial Stability Board (2011), and OECD (2011).
23 Aaron et al. (2017) argued that “Our premise is that in the long run, fintech may affect the different areas of responsibility of central banks in two main ways: by changing money demand and by changing the industrial organization of the financial system. … Fintech could also have broader effects on employment and productivity as part of the digitalization of the economy” (p. 2).
It is not a question of having the answers in advance to all problems and risks that may arise, but the sources of contingencies tend to diminish as agents' perceptions tend to level out. The caveat regarding the eventual omission of important variables means a warning by Sen (2000): “[I]ndispensably important is an adequate understanding of the informational base of the evaluation - the kind of information we need to examine in order to assess what is happening and what is being seriously neglected” (p. 325, translated by the author).

Proximity and regularity of contact between the parties involved in business do not necessarily refer to physical presence, but to the development of a continuous process of information exchange, which can be provided through platforms created for such function, such as the innovation hub proposal. As for the responsibilities that go through regulators/supervisors' actions, the authorization processes for operators in the financial system should provide for innovative-open business models, which significantly impacts the type of knowledge and skills held by the supervisor's personnel in charge of the analysis. Aaron et al. (2017) argued, “the hardest challenge will be evaluating the new applications of financial intermediation and new organizational forms of intermediaries” (p. 27).

According to the FCA (2018), “Banks have historically been custodians of customer data but have not fully exploited this resource. With the advent of fintech and PSD2/Open Banking, banks are under pressure to innovate quickly [emphasis added] to avoid losing customer relationships” (p. 13). Taking risks under the adequate precautionary measures does not mean eliminating any possibility of unforeseen contingencies, but it does grant commitment and credibility to initiatives that can represent bold movements, whose resulting innovations bring apprehension to those involved, such as innovative business models in a hermetic area for a large part of the population, as is the case for financial services. In this regard, we refer to the importance of incentives for the generation of value for stakeholders in engaging in joint actions (Ramaswamy & Gouillart, 2010) and the public's view on the addressed area when promoting results (Zingales, 2015). "Some of the themes we have identified in this review highlight the need for us to continue to work collaboratively with Government, other regulators, charities, consumer bodies, and industry to achieve the best outcomes [emphasis added]" (FCA, 2018, p. 55).

Addressing the Brazilian market specifically, we mention some initiatives with potential direct and indirect impacts on the provision of financial services and aimed at promoting innovation and competitiveness in the technology field: 1) Financial and Technological Innovations Lab (Lift), implemented in May 2018 by the BCB and Fenasbac, to stimulate the development of innovations that contribute to the financial system through intensive use of technology (Central Bank of Brazil, 2018) - in its third edition (2020)24; 2) Resolution 4.656 of the National Monetary Council, published in April 2018, which provides for two new types of financial services operators, Direct Credit Society and Inter-Personal Loan Society - both operating exclusively through electronic platform25; 3) public consultations on regulatory sandbox and open banking (both set in November 2019 - already ended)26; and -4) the Brazilian instant payment ecosystem - PIX27.

In summary, different sources of information have provided evidence on changes in consumer behavior, the presence of innovative business models, and intensive use of technology in the provision of financial services, in parallel with the perception of fragility of agents facing the challenges imposed by these new market dynamics. Considering again the financial services consumers as an example, we argue that, despite the importance of initiatives that provide State protection and education for them through ‘formal/traditional’ training, some results have suggested that there is still room for improvement28. Accordingly, a change in the governance structure of the regulation of the financial system seems necessary. Finally, we emphasize an active stance for the formulation and implementation of measures, which implies fairness for the stakeholders' perspectives, with the formalization of direct and regular interactions among them.

5. CONCLUSION

This study evaluates the convenience and timeliness of changing BCB's mission, the main entity responsible for carrying out the regulatory, supervisory, and organizational activities within the NFS. Given its commitment to contribute to the country's development, the NFS takes on a fundamental position in the basic structure that coordinates Brazilian society's performance.

As BCB's mission is not static due to reflecting events in the internal and external environments, the changes to it are relevant to the definition of the strategy and proposal of projects. Therefore, we question why it would be relevant to address a change in the mission of the BCB. We start from constitutional precepts, in resonance with Rawls's conception, which emphasizes the repercussion of the basic structure on society as a whole, and address the objective of promoting the national development for the NFS as the root of the analysis. Specifically, we also draw on contributions in the literature and in international reports to underscore why to effectively include all stakeholders interested in benefits and responsibilities from collective efforts.

We present the theoretical reasoning, highlighting characteristics that we assume fundamental in the development processes. We

24 Lift (https://www.liftlab.com.br/).


26 See BCB (2020) and https://www.bcb.gov.br/audiend/ AudienciasEncerradas/9

27 See BCB (2020) and https://www.bcb.gov.br/pressdetail/2361/nota

28 “A high percentage (58%) of respondents said they did not make any comparison before hiring a financial service, indicating an unhealthy consumer behavior regarding their financial decisions.” (Central Bank of Brazil, 2017, p. 48, translated by the author). The same source mentioned, “The Brazilian population has a high degree of confidence, greater than the knowledge – in fact about finance...” (p. 23, translated by the author). See also Table P.2.1 – Comparing countries’/economies’ mean performance in financial literacy: Brazil is 17th out of 20 countries/economies (OECD, 2020). See also Central Bank of Brazil (2016), OECD (2017), and Amorim (2017).
mention inclusion, agents’ active participation in the evaluation and construction of projects and institutions that balance everyone, fairness, learning, and innovation. We then introduce two approaches from the perspective of political philosophy, those of John Rawls and Amartya Sen. To this end, we submit to the lens of political philosophy the root of analysis, seeking to neutralize the pre-existing views on the restrictions and advantages of various measures and priorities. We highlight the adequacy of informational bases used to list urgent demands, as well as the procedures carried out to ensure effective commitment by agents.

Therefore, we do not focus on advancing the current results on access or use of financial services, but on questioning how the alternatives for action are being selected and implemented. We emphasize constitutional values, which we qualify as principles for guiding the institutions within the basic structure. That is, we conduct an analysis of a conceptual nature, but contextualized so that we can also evaluate its timeliness.

We then report contributions from four developed jurisdictions in the financial services area (the United States, the United Kingdom, Singapore, and Hong Kong) with insights from their guidelines and initiatives, such as 1) diversity; 2) responsible innovation; 3) in-depth knowledge on innovations with consumer participation; 4) consumer needs in increasing complexity; 5) limited resources of the regulator; and 6) demand to know what and why to prioritize, as well as identify partnerships as a tool that enables projects through broad stakeholder involvement.

The urgency of innovation in technology and business models reflects the speed with which changes and new risks and opportunities have been occurring, thus underscoring the need to incorporate flexibility in the way agents act. In parallel, the combination of demographic, social, economic and technological factors, with the resulting growing complexity based on the expectations of consumers and operators, does not exempt one from noting that the continuity of reactive stance to events, as expressed by Barros, is not consistent with the objectives and principles sought in financial systems.

Finally, we emphasize the timeliness of institutionalizing the value of justice into the mission of the BCB. The incorporation of justice into the institutional mission of the main regulatory entity of the NFS not only signals a new normative proposal for public policies in this area, but also publicly binds all agents, thus proposing a pact that generates expectations of reciprocity and increased cooperation, engagement, and legitimacy.

Regarding its contributions, this study provides an alternative paradigm to promote publicly agreed objectives through governance structures and a methodology that can be applied in future analyses addressing other countries and sectors. However, this study was focused on a specific case – Brazil and the financial sector – representing, thus, a limitation towards more general conclusions. Furthermore, to our knowledge, the proposal presented here is pioneering, which also limits its ability to evince measurable results.

REFERENCES


