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FEATURED Q&A

How Will Argentine Tax Plans Affect Banks & Customers?

U.S. Treasury Secretary Jacob Lew and Argentine Finance Minister Alfonso Prat-Gay (L-R) announced Sept. 26 in Buenos Aires that the two countries would exchange tax information in an effort to fight tax evasion and money laundering. // Photo: Argentine Government.

Q: The United States will expedite the process of sharing tax information with Argentina in an effort to combat money laundering and address tax evasion through increased information sharing, U.S. Treasury Secretary Jacob Lew announced last month during a trip to Buenos Aires. Argentines are estimated to hold some $500 billion abroad, Bloomberg News reported. Why have the United States and Argentina not had better coordination on tax issues to date, and what are the most important elements of the new plans? How will banks and their customers be affected? How much of the estimated $500 billion is related to tax evasion and money laundering, versus citizens trying to protect their assets in a tumultuous economic environment? Has Argentina's tax amnesty plan, announced earlier this year, been successful?

A: Miguel Kiguel, executive director of EconViews in Buenos Aires: "Argentines have had a long tradition of hiding their savings from the tax authority and by and large leaving them abroad. As a result, the stock of undeclared assets is large, and the estimates range between $250 billion and $400 billion. This is likely to change as a result of the multiple treaties that the country signed regarding exchange of financial information with other tax authorities. In July, the government launched a tax amnesty to give Argentines an opportunity to regularize their fiscal situations, and most analysts expect that in the new environment an important share of the 'hidden' assets will be exteriorized. While it is difficult to estimate the amount of assets that will be exteriorized, it is useful to use the Chilean experience as a benchmark,

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Chilean President Michelle Bachelet approved a law that will allow pension funds to invest directly in closely held companies and real estate for the first time.

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The insurer is selling its local commercial and consumer insurance operations in locations including Argentina, Chile, Colombia, Uruguay and Venezuela.

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BANKING

Citi Selling Brazil Consumer Banking Business to Itaú

After the transaction, Citi will continue serving its corporate and investment bank clients in Brazil, which the bank's CEO for Latin America, Jane Fraser, said is an "essential part" of its global network.

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Fraser // File Photo: Citigroup.

BANKING NEWS

Citigroup Sells Brazil, Argentina Assets

New York-based financial services giant Citigroup announced Oct. 8 that it has reached a deal to sell its consumer banking business in Brazil to Itaú Unibanco. The sale, which is subject to regulatory approvals, involves approximately $2.8 billion in assets for Citi in Brazil and includes credit cards, personal loans and deposit accounts, as well as Citi Brazil's retail brokerage business. The sale price is 710 million reais ($220 million), according to a Reuters report. However, after the transaction, Citi will continue serving clients of its corporate and investment bank, as well as commercial and private bank businesses in the country. "Brazil is a strategic market for Citi and is an essential part of our footprint and global network," said Jane Fraser, Citi's Latin America CEO. "We have been in Brazil for more than 100 years and we will continue to grow our market leading franchise serving our institutional and private bank clients," she added. In related news, Citi recently said it had agreed to sell its consumer business in Argentina, worth $1.4 billion in assets, to Banco Santander Rio for an undisclosed amount.

> **Brazil is a strategic market for Citi and is an essential part of our footprint and global network...."**
>
> **— Jane Fraser**

U.S. Envoy in Jamaica Links De-risking to Lotto Scammers

The U.S. ambassador to Jamaica on Oct. 11 said the de-risking trend facing Jamaican banks could be linked to the explosion of lottery scams on the island, the Jamaica Gleaner reported. Speaking at a conference, Luis Moreno said more needs to be done to close loopholes in banks that allow scammers to launder illicit funds. "We well know that these people use the banking institutions to transport money; that they use whatever loopholes they can, and we have to do everything to de-risk that as much as possible," said Moreno. "We have to do that in a way that does not affect legitimate remittances or transactions, and that's not easy," he added. Lotto scams based in Jamaica have robbed an estimated $500 million to $1 billion from U.S. citizens. Moreno said that elsewhere tough banking regulations and due diligence on customers have proven very effective in countering corrupt activities, but Caribbean banks note that the high costs of compliance threaten to dismantle the international financial system. [Editor's note: See related **Q&A** in the May 18 issue of the Financial Services Advisor.]

INSURANCE NEWS

Swiss Re Teams Up With Bradesco

Insurer Swiss Re said Oct. 13 its corporate solutions unit had signed a joint venture agreement for exclusive access to the distribution network of Rio de Janeiro-based Bradesco Seguros, the largest insurance company in Latin America, Insurance Journal reported. Under the agreement, Bradesco Seguros will take a 40 percent equity stake in Swiss Re Corporate Solutions Brasil Seguros, or SRCSB, while Swiss Re will retain a 60 percent stake in the company. The deal centers on Bradesco's commercial large-risk portfolio. "As a result of the integration, SRCSB will become a leading commercial large-risk insurer in Brazil," Swiss Re said in a statement. Bradesco Seguros has a distribution network with more than 4,600 Bradesco bank branches across Brazil and approximately 40,000 insurance brokers and agents registered to Bradesco Seguros. As part of the transaction, Bradesco Seguros' team

NEWS BRIEFS

Creamfinance Expands Into Latin America

Creamfinance, an online consumer financial services provider, on Oct. 12 expanded its footprint in Latin America by launching a Mexico City office. With current operations in seven countries in Europe, the Mexico office marks its first presence on a new continent, the company said. "Mexico is obviously a very different country from the ones Creamfinance was operating [in] before," said Francisco De Vega, who has been named managing director of the Mexico office. Started in Latvia in 2012, Creamfinance currently employs approximately 200 people with aims to become a "one-click loans provider" to consumers globally.

Brazilian Bank Workers End Month-Long Strike

Employees of private Brazilian banks as well as state-run Banco do Brasil on Oct. 6 ended a 31-day strike, their longest work stoppage since 2004, Reuters reported, citing the country's largest bank industry union, the Sindicato dos Bancários de São Paulo, Osasco e Região. The bank workers ended the strike by accepting a proposal from Febraban, the National Banking Federation, for an annual wage hike of 8 percent, which the union said amounts to an inflation-adjusted gain of 1 percent. Under the deal, food and child-care allowances will also be increased by 10 percent and 15 percent, respectively.

Greenhill Hires Medina From BTG Pactual

Investment bank Greenhill & Co. has hired Carlos Medina away from BTG Pactual Group, Bloomberg News reported Oct. 17. Medina, who is based in New York, will be a managing director at Greenhill and will focus on dealmaking in Latin America. Medina most recently was worked in mergers and acquisitions at BTG.

of professionals responsible for commercial large-risk business in São Paulo and Rio de Janeiro will join SRCSB. Randal Luiz Zanetti, president of Bradesco Seguros, said in a statement that "our relevant participation in the joint venture reinforces our belief that commercial large-risk insurance is a promising business in Brazil." Completion of the transaction is subject to approval by authorities.

Lloyd's Names Revilla as Latin America Head

Lloyd's on Oct. 13 appointed Daniel Revilla as its new head of Latin America. Revilla joined Lloyd's in 2014 as head of operations and strategy for Lloyd's Global Markets division. Prior to that, he worked at Zurich for nine years in mergers and acquisitions and strategy roles. He also worked in mergers and acquisitions and strategy at UBS investment bank. Revilla also held financial roles with Telefonica Sistemas and AFP Integra in Peru. "As cities expand across the region so does the value of assets requiring protection, and we see significant potential for development in specialist insurance and reinsurance," Revilla said. A recent Lloyd's study with Cambridge University, the City Risk Index, found that cities in Latin America have $520 billion of GDP at risk from a series of threats. However, insurance penetration rates at 3.1 percent are significantly lower than the global average, 6.1 percent.

AIG Selling Some Latin America Units to Fairfax Financial

New York-based insurer American International Group announced Oct. 18 that it is selling some of its operations in Latin America, as well as in Central and Eastern Europe, to Fairfax Financial Holdings. Under the deal, AIG will sell Fairfax its local commercial and consumer insurance operations in Argentina, Chile, Colombia, Uruguay and Venezuela. AIG is also selling Toronto-based Fairfax its commercial and consumer operations in Turkey. "This partnership marks a significant step forward in achieving the strategic priorities of AIG, as well as Fairfax," said AIG's president and chief executive officer, Peter Hancock. Fairfax also will acquire renewal rights to the local business portfolio that AIG's Central and Eastern European operations wrote in countries including Bulgaria and the Czech Republic, AIG said in a statement. The deal is valued at approximately $240 million and is subject to regulatory approvals. AIG added that Fairfax will become the insurer's "main strategic multinational partner" to serve global clients of AIG in those countries. AIG added, "The divestiture furthers AIG's strategic goal of focusing its geographic footprint and investment in major economies that offer the greatest potential for profitable growth and the opportunity for AIG's commercial or consumer insurance divisions to achieve and maintain scale."

Hancock // File Photo: AIG.

PENSIONS NEWS

Chilean President Signs Pension Reforms Into Law

Chilean President Michelle Bachelet on Oct. 13 signed a law that will allow pension funds, known as AFPs, to invest directly in closely held companies and real estate for the first time, as well as buy shares in infrastructure concessions, Bloomberg News reported. The law will come into full effect in 12 months. In August, Bachelet proposed changes to the country's private pension system, requiring

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where $20 billion was exteriorized in a country whose GDP is 40 percent of Argentina's. If the results were similar, Argentines should declare $50 billion. However, given that the extent of 'hidden' assets is much larger here than in Chile, we could expect a figure that ranges between $60 billion and $100 billion. So far, very few people have adhered to the amnesty. This is not surprising, however, because most of the assets are likely to be declared toward the end of the year, because there are financial advantages to doing so, and due to the operational complexity of the whole process. Until recently, one of the deterrents was that the United States was perceived as a tax heaven, namely because it was refusing to exchange financial information. However, during his recent visit to Argentina, Jacob Lew made a commitment to sign a treaty that would remove this obstacle."

A **Claudio Loser, visiting senior fellow at the Inter-American Dialogue, president of Centennial Group Latin America and former head of the Western Hemisphere Department of the International Monetary Fund:** "It is not clear that the IRS will proceed with a blanket 'full disclosure' regarding income earned by Argentines in the United States. The first issue to take into consideration is that there is no tax treaty between the two countries, thus creating a clear risk of double taxation on income. Second, individuals may take legal actions regarding confidentiality of information or possible abuse on the part of the partner country (Argentina) if information is requested massively. It is very likely that information associated with cases of money laundering and/or corruption will be provided, but not those associated with

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larger contributions from employers and independent workers in order to boost retiree benefits that have not met expectations after more

Bachelet // File Photo: Chilean Government.

than two decades of privatization. Chilean pension fund returns averaged 12.3 percent in the 1980s, 10.4 percent in the 1990s, 6.3 percent in the 2000s and just 4.3 percent since 2010, according to Bloomberg News. "The system has failed to keep its promise of providing good pensions," Francisco Javier Díaz Verdugo, Chile's undersecretary of labor, told the Advisor in August, noting that women in particular face a difficult time in retirement securing enough income under the current plan. [Editor's note: See related **Q&A** in the Aug. 24 issue of the Financial Services Advisor.]

POLITICAL NEWS

Venezuelan Supreme Court Imposes New Hurdle for Recall

Venezuela's Supreme Court on Oct. 17 raised the requirements needed for the opposition to hold a recall vote against President Nicolás Maduro, Agence France-Presse reported. The court ruled that Maduro's opponents must collect the signatures of 20 percent of the electorate in each of Venezuela's states, rather than 20 percent of the country's total electorate, in order to proceed with a recall vote. "The failure to collect that percentage in any of the states or the capital district would nullify the validity of a presidential recall referendum," the court said in the ruling. The opposition also must collect the signatures over a three day period,

THE DIALOGUE CONTINUES

Will Blockchain Profoundly Alter Financial Services?

Q Blockchain, the technology that underlies Bitcoin and a host of other electronic transactional activities, "could profoundly alter the way banks do business worldwide" by reducing operating costs and making financial services more secure and more accessible, the World Economic Forum said in a report released in August. What should financial services companies operating in Latin America do in order to position themselves to adopt and benefit from blockchain technology? What are the main benefits banks can realize from the technology? What are the main advantages and drawbacks for consumers? What do governments need to do to regulate the industry most effectively with regard to blockchain?

A Carlos M. Parra, clinical professor in the Department of Information Systems and Business Analytics at Florida International University: "Blockchains, or 'distributed ledgers,' create trust among market participants by pulverizing the risk that a single participant could rig, manipulate or alter the ledger. The ledger is updated through a consensus mechanism that is agreed to by participants running the blockchain. Then, modifications to the ledger are fixed through cryptography in order to prevent double-spending (in the case of e-currencies), to protect counter-parties (in the case of trades), or to provide a unique proof of identity and ownership (in the case of goods). In Latin America, as I argued in a piece published in this newsletter in January 2014, blockchains (in particular, e-currencies) could be used to process remittances and/or international payments cheaply. In addition, blockchains could be used for 'smart contract' design in order to register and track the ownership of goods, which could, for example, protect and guarantee land titles. More importantly, these smart contracts could be used to ensure enforcement while circumventing the delays and inefficiencies that characterize the region's judicial systems. This could imply a significant reduction in transaction costs for companies and individuals wanting to do business in the region. Finally, the information from these smart contracts could also be used by governments for tax collection purposes, through a trustworthy tamper-proof system that citizens could run and control directly. Unfortunately, citizens would not yet directly control how collected taxes are spent. But, it seems easy to imagine how, if participants already agreed to a consensus mechanism for updating the ledger (or ownership registry), they could also use it to determine what projects to spend tax collections on. When that happens, project-executing agencies could also be selected using that same consensus mechanism after a competitive bidding process. In essence, blockchains may finally bring about governments of, by and for the people."

> **"Blockchains ... create trust among market participants...."**
> **— Carlos M. Parra**

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the Sept. 22-Oct. 5 issue of the Financial Services Advisor.

NEWS BRIEFS

Federal Judge Killed in Mexico

Mexican Federal Judge Vicente Antonio Bermúdez Zacarías was killed on Oct. 17 in the State of Mexico, the Associated Press reported. Following the news, President Enrique Peña Nieto said he has instructed the attorney general's office to lead the investigation into the circumstances surrounding Bermúdez's death. Various Mexican news outlets said he was shot in the head while exercising outdoors, but that there was no immediate word of a motive for killing him.

ICSID Rules in Favor of El Salvador in Mining Case

A panel of arbiters working with the World Bank's International Center for the Settlement of Investment Disputes, or ICSID, ruled Oct. 14 that El Salvador did not have to pay some $314 million in compensation to a mining company that was denied a concession to drill for gold. Pac Rim Cayman, a United States-based firm, had alleged that the Republic of El Salvador wrongfully refused to grant environmental permits for its exploration and exploitation projects, which rendered its mineral discovery in El Salvador worthless in violation of the CAFTA-DR trade agreement with the United States.

Peru Hopes to Lead World in Blueberry Exports

Peruvian Agriculture Minister José Hernández on Oct. 12 told Congress that the Andean nation could become the world's top exporter of blueberries within the next two years, state news agency Andina reported. In a presentation before the legislature's budget committee, Fernandez said a recent agreement reached with Colombia granting access to several Peruvian agricultural products is will help boost demand, with a goal to double overall agricultural exports to $10 billion by 2021.

from Oct. 26 to Oct. 28. Maduro's popularity has plummeted as the country is mired in its third year of recession, with shortages of food, medicine and other basic goods and an inflation rate expected to surpass 700 percent. [Editor's note: See Q&A on Venezuela in the Oct. 13 issue of the Advisor.]

United Nations Chief Sees Looting in Haiti Firsthand

United Nations Secretary General Ban Ki-moon said he witnessed looting incidents in Les Cayes, Haiti, on Oct. 15 when he arrived to tour devastation wrought by Hurricane Matthew earlier this month, Reuters reported. Haitian police and U.N. peace keepers used tear gas to disperse a group of 100 residents who attacked humanitarian convoys in Les Cayes, according to the report. "We understand the impatience and the anger of the population who are waiting for emergency relief. We are doing all we can to facilitate the arrival of the assistance soon as possible," Ban said. An estimated 1,000 people were killed and more than 100,000 homes were damaged or destroyed by Matthew, a category 4 storm that hit Oct. 4. Ban has called for more than $100 million in international aid to Haiti in order to allow the government to function amid the catastrophe, but he acknowledged Saturday that "donor fatigue" makes it difficult to raise funds. Canada's total humanitarian response to Hurricane Matthew in Haiti rose to $6.08 million last week, Haiti Libre reported. Meanwhile, the United States is temporarily suspending deportations of Haitians inside the United States illegally, the Los Angeles Times reported last week. However, U.S. Secretary of Homeland Security Jeh Johnson also made clear that the United States plans to resume deportation flights soon and will continue to prioritize the deportation of Haitians attempting to enter the U.S. without permission. Concern over a flood of migrants has been mounting as Haitians have found themselves bottle-necked in Tijuana and other Mexican communities along the U.S. border, the Times reported.

ECONOMIC NEWS

ECLAC Lowers Latin America Growth Forecasts

The U.N. Economic Commission for Latin America and the Caribbean, or ECLAC, revised its forecast for Latin America downward on Oct. 12, saying that the region's gross domestic product would contract 0.9 percent this year, EFE reported. Economic activity is expected to pick up again in 2017, with average growth of 1.5 percent. "The projections for 2017 reflect expectations of more auspicious global conditions than in 2015 and 2016," ECLAC said in a statement, adding that "growth is expected to be stronger in the economies of the region's trading partners." Still, ECLAC said any expansion in 2017 will show marked differences between countries and sub-regions, with the economies of South America posting average growth of 1.1 percent in 2017, and the economies of Central America expected to register growth of 4 percent next year, as compared to the 3.7 percent projected for 2016.

India, Brazil Pledge Closer Trade Ties

Indian Prime Minister Narendra Modi on Oct. 17 met with his Brazilian counterpart, Michel Temer, on the heels of the eighth BRICS summit in Goa to discuss closer trade and bilateral ties, The Times of India reported. "We are natural partners linked by democracy, rule of law and shared aspirations for development, peace and prosperity," Modi told reporters. "I welcome Brazilian companies to come and invest in India and forge a long commercial partnership," he added. The two were scheduled to discuss areas of cooperation related to drug regulation, agricultural research and cyber security. Temer said he thought that trade between the countries could triple within a few years. The global drop in commodity prices and the economic recession in Brazil has put a dent in once-surging Brazil-India trade flows, however.

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pure and simple capital flight. In addition, legislation on financial assets is under state, not federal, jurisdiction. Thus, the willingness and ability of the federal government to go beyond the cases noted may be restricted. With regard to Argentines' investments abroad, the amounts are significant, and they have been accumulated by concerned individuals who have mistrusted, for good reason, the country's economic policies. It is true that they have evaded taxation, as has been done internally to a much larger extent. However, the main motive was protection of assets because of very deficient polices. It is too early to tell if the current authorities will succeed with their tax amnesty plan, which will depend not only on good intentions, but on the government's ability to improve economic management on a sustained basis."

A **Eduardo Amadeo, member of Argentina's Chamber of Deputies and chairman of its Finance Committee:** "Not only did the previous Kirchner governments not focus on money laundering, but they won congressional approval of two amnesty laws that induced money laundering. The U.S. government lost the confidence of Argentine authorities and decided not to share any information on this issue. Basically, the new plans increase the exchange of information about suspicious operations and individuals. Those who have no legal problems will not be affected. Most likely, there will be increased control over suspicious operations, of the sort that already exists in most banks. It's hard to say how much of the $500 billion held abroad is related to tax evasion or money laundering, but given the recent history of repetitive economic crises, it is reasonable to think that a substantial portion of that money was hidden in order to protect it from legal uncertainty, devaluations and government intervention in markets. It is early to say whether the government's tax amnesty plan has succeeded, because the deadline is next year. However, given information provided by banks and accountants, the result will be very positive. It is harder to hide money overseas; and the mood toward the government has increased confidence in the rule of law."

> **"Those who have no legal problems will not be affected."**
> — Eduardo Amadeo

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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