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FEATURED Q&A

Is Peru Winning the Fight Against Financial Crimes?



Peruvian President Pedro Pablo Kuczynski signed a decree in November to strengthen the country's Financial Intelligence Unit in an effort to fight money laundering and other financial crimes. // File Photo: TV Perú.

Q Peru's government announced in November that it was strengthening the country's Financial Intelligence Unit in an effort to crack down on money laundering and crimes related to terrorism. The agency will now be able to request that judges lift bank and tax secrecy provisions when necessary and also will have broader authority to supervise individuals and organizations such as notaries, credit unions and travel agencies. How big is Peru's problem with money laundering, and will the new measures be effective in fighting that crime? How successful have Peru's past efforts to crack down on financial crimes been? What are the most important vulnerabilities in this area that Peru still must tackle?

A Fernando Castañeda, partner at Diaz, Reus & Targ LLP, Lima Office partners - Aramburú Castañeda Boero Abogados: "Through Legislative Decree Number 1249, the Financial Intelligence Unit will be strengthened by creating new subjects required to report suspicious money laundering operations (for example, credit- and/or debit-card processing companies, as well as lawyers and accountants who routinely carry out financial advice and/or corporate services on behalf of a third party). The supervision of real estate agents is also assigned to the Financial Intelligence Unit, as are travel and tourism agencies, lodging establishments, mining companies, lottery games and the like. In addition, the unit will have access (through a judge) to tax and banking secrets and will be able to share information with the prosecutor's office about intelligence on crimes such as kidnapping, extortion and corruption that they detect in their investigations. It is estimated that

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TOP NEWS

REMITTANCES

Remittances to Mexico Jump After Trump's Election

The amount of remittances sent to Mexico in November jumped by the largest monthly amount in a decade following the election of Donald Trump as U.S. president. Remittances leapt nearly 25 percent year-on-year, to \$2.4 billion.

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INSURANCE

Colombia Sees Growth in Life Insurance Market

The penetration rate in Colombia's life insurance market grew, but still lagged some of its neighbors in Latin America, including Chile and Brazil.

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FINANCIAL SERVICES

Itaú Names New Executives Ahead of CEO Change

Brazil's Itaú Unibanco named two new executives ahead of April's planned change of the bank's CEO. Among the changes, Christian Egan will head Itaú's global markets and treasury operation.

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Egan // File Photo: LinkedIn.

FINANCIAL SERVICES NEWS

Itaú Taps New Executives Ahead of CEO Change

Brazil's Itaú Unibanco on Dec 19 named two new executives ahead of the bank's transition to a new chief executive officer in April, Bloomberg News reported. The bank named Christian Egan to head its global markets and treasury operation and Carlos Constantini as the chief executive of its U.S. unit. Con-

“Since many executives are changing positions, we decided to take the opportunity to make some readjustments.”

— Eduardo Vassimon

stantini will be based in Miami, where Itaú's private-banking operation for Latin American clients, its most important U.S. business, is headquartered, the bank's wholesale general officer, Eduardo Vassimon, told the news service. “Since many executives are changing positions, we decided to take the opportunity to make some readjustments,” said Vassimon. In his new role, Constantini will also take over Itaú's Northern Hemisphere wealth-management unit, which includes its Zurich business. He will report to Flavio Souza, the head of the bank's wealth-management and services division. The unit includes private banking, securities services and asset management. Egan said in an interview in São Paulo that he will be in charge of a division that comprises trading, corporate sales, global equities and fixed-income distribution, as well as banking and asset-liability management. “The goal with the new global markets structure is to consolidate our dominant position as a key liquidity provider for our institutional and corporate clients in Latin America, by having sales and trading working together,” Egan said. Egan will

be taking over that role from Caio David. Itaú previously announced that Candido Bracher will succeed Roberto Setúbal as CEO in April. Setúbal, 62, is departing as he nears the bank's mandatory age for retirement.

J. Safra Sarasin Closing Germany Operation

Swiss private bank J. Safra Sarasin, which is owned by Brazil's Safra Group, is closing its operation in Germany, finews.com reported Jan. 10. The bank, which currently employs just over 80 people in Germany, will pull out of the market this year, two unnamed sources told the news site. The bank declined to comment on the matter. J. Safra Sarasin has five branches in Germany. Its headquarters in the country are located in Frankfurt, and it has offices in Hamburg, Hanover, Munich and Stuttgart. It was just a year ago that the bank declared Germany as a key market.

REMITTANCES NEWS

Remittances to Mexico Jump After Trump's Election

Remittances to Mexico saw their biggest increase in more than a decade in November, jumping 24.7 percent year-over-year to \$2.4 billion, following the U.S. presidential election victory of Donald Trump, Reuters reported Jan. 3. The increase in remittances marked the fastest pace of expansion for Mexico since March 2006, according to data released by the Mexican central bank on Monday. Trump's campaign was characterized by anti-Mexico rhetoric, and one of his signature promises was to build a physical wall at the border between the United States and Mexico. He has threatened to block remittances from the United States to Mexico unless the Mexican government agrees to pay for the wall. Trump's victory on Nov. 8

NEWS BRIEFS

Colombia's Life Insurance Market Grows: Report

The penetration rate of Colombia's life insurance market grew to 0.79 percent in 2015, Finance Colombia reported Jan. 7, citing London-based research group Timetric. Life insurance accounted for 16.9 percent of premiums across all lines in the South American country, according to the report. Colombia's life insurance penetration rate, or premiums as a percentage of national GDP, lagged those of Chile and Brazil, according to a report by Zurich-based Swiss Re. However, the life insurance market in Colombia did exceed those of countries including Argentina and Panama, the report said.

Tigo Money Reaches One Million Users in El Salvador

Mobile phone provider Tigo El Salvador has increased the number of users of its Tigo Money mobile wallet service to more than one million from 25,000 in 2011 when it launched the service, Tigo's vice president of digital operations, Daniel Barrientos, told La Prensa Gráfica Dec. 14. The service moved some \$530 million in transactions this year, a 6 percent increase over last year, Barrientos told the newspaper. Tigo's parent company, Luxembourg-based Millicom, signed deals this year with companies including MoneyGram to extend its network.

Mexico's BBVA Bancomer Acquires Openpay

Mexico's BBVA Bancomer announced Dec. 23 that it has acquired Mexican startup Openpay, which enables real-time payments for individuals, large companies and small enterprises. A payment service provider, Openpay facilitates e-commerce by allowing users to make payments using cards, cash, loyalty points and bank transfers using a single integration, BBVA said in a statement.

sent the Mexican peso to record lows, fueled by threats the Republican had made during his campaign that he would scrap a trade deal between the two countries and that he would impose a heavy tariff on Mexican-made goods. According to Goldman Sachs economist Alberto Ramos, the weak peso fueled a surge in remittances. In a client note, Ramos said Mexicans living abroad could be “strategically front-loading” remittances in order to avoid paying potential taxes or facing restrictions from the incoming U.S. administration.

CREDIT CARD NEWS

Brazilian Gov’t Unveils Plan to Cut Card Interest Rates

The administration of Brazilian President Michel Temer on Dec. 22 revealed details of plans to cut credit card interest rates for consumers, as well as new measures to get employment figures up, Reuters reported. The employment aspect of the initiative offers subsidies to companies that retain workers, with new rules to make hiring on temporary contracts easier. In laying out the measures, Temer’s chief of staff, Eliseu Padilha, said subsidies to companies that reduce working hours instead of firing employees could preserve 200,000 jobs over the next four years. The plan will also allow some workers to draw on severance fund accounts, known as FGTS, a step which could inject roughly \$9 billion into the economy. As for credit card debt, Temer’s plan would cut interest rates on revolving credit cards of up to 30 days by more than half. For longer periods, banks would allow consumers to pay their debt in installments with reduced rates compared with today, according to Reuters. Brazil’s benchmark Selic rate currently stands at 13.75 percent, while the average annual interest on credit cards has risen above 450 percent, according to Bloomberg News. Earlier this week, Ilan Goldfajn, the president of the country’s central bank, denied suggestions that state-run banks will be used to cut the cost

of credit in Brazil, Folha de S.Paulo reported Thursday. “We will not make the same mistakes of the past,” Goldfajn said, referring to the decision made during the administration of impeached President Dilma Rousseff to press for cutting interest rates at Banco do Brasil and



Goldfajn // File Photo: Brazilian Government.

Caixa Econômica Federal as a way of forcing a drop in the rates of private banks. Consumer confidence in Brazil fell in December for a second month, hitting its lowest since June, Reuters reported today. The private survey by the Getúlio Vargas Foundation found consumer confidence dropped to 73.3 in December from 79.1 in November, suggesting a quick exit from recession under Temer has not materialized. The consumer-confidence index polled 2,007

families in Brazil’s seven largest cities, from Dec. 1 to Dec. 20. Temer has launched two rounds of stimulus measures in recent weeks

Mexican Banks Lowering Card Spending Limits

Some Mexican banks are lowering credit card spending limits and tightening consumer lending standards as the country faces the prospect of an economic slowdown as a result of the U.S. presidential election victory of Donald Trump, Reuters reported Dec. 14. Despite a recent period of strong overall credit growth, Mexico is steeling itself against the possibility of an economic shock in 2017 after its peso lost 19 percent this year, largely on fears of a Trump presidency. Donald Trump campaigned on an anti-immigration, anti-NAFTA platform, and many are worried that his policy toward Mexico may have debilitating effects on the country’s economy. Grupo Financiero Banorte, the country’s fourth-largest bank, has said it would reduce credit card limits for new

FEATURED Q&A / Continued from page 1

between January 2007 and March 2016, approximately \$13 billion in assets from illicit drug trafficking (42 percent), illegal mining (34 percent) and crimes against public administration (7 percent) were been laundered, according to ASBANC. The expansion of powers described and the creation of the Centralized Organization for the Prevention of Money Laundering and Terrorist Financing can improve the results of the past. At the same time, however, it is necessary to promote the formalization of commercial transactions in the country and the presence of the state in the areas where informal mining is developed and drugs are produced and marketed. Only the cooperation of Peru’s executive, legislative and judicial branches of government in eradicating corruption, money laundering and terrorist financing will produce real changes.”

A Carlos Arata, partner in the corporate practice at Rubio Le-guía Normand in Lima: “During the last few decades, Peru has struggled in its fight against different kinds of crimes associated with money laundering, such as drug dealing, illegal mining and forestry, corruption and terrorism. In this regard, a first important step taken by the government was the creation of the Financial Intelligence Unit in 2002. This government agency estimated that between January 2007 and March 2016, assets valued at more than \$13 billion were laundered in our country. Although crime cartels and many others were brought to justice during this period, these efforts have proven to be, so far, insufficient. However, Peruvian law enforcement agencies have become more

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customers, if necessary. "That measurement of how much he is going to be able to do is what we have to analyze every day," said Miguel Angel Laurencio de la Vega, director of investor relations at Banorte. BBVA Bancomer, Mexico's largest bank, said last week that it had begun lowering card limits over the past four months, and that it was monitoring certain existing credit card accounts. Inbursa, which is controlled by Mexican billionaire Carlos Slim, said it has become more selective with borrowers, with card approval rating at around 27 percent, down 8 percent from June.

ECONOMIC NEWS

Mexico's Inflation Rises at Fastest Rate in Two Years

Mexico's December annual inflation rose at its fastest rate in two years, national statistics agency INEGI said Jan. 9, making it likely that the central bank will boost interest rates again, at a time when prices are also expected to increase due to a hike in the cost of gasoline, Reuters reported. Consumer prices increased by 3.36 percent from December 2015, INEGI said, which was the highest rate since December 2014 and above the central bank's 3 percent target. Some analysts believe consumer prices will rise even further due to the increase in the cost of fuel in Mexico following the government's decision to deregulate the commodity beginning Jan. 1. "We expect a much more accentuated rise in January," CitiBanamex said in a note, citing energy costs and a weak peso. The bank added that inflation could increase by more than 4.6 percent on an annual basis.

Venezuela Hiking Minimum Wage 50%

The Venezuelan government has announced it will enact a 50 percent increase in the minimum wage and pensions in order "to combat inflation," BBC News reported Jan. 9. President

ADVISOR Q&A

What Will Be Latin America's Biggest Hotspots in 2017?

Q **The past year in Latin America was marked by events including the impeachment of Brazil's president, Dilma Rousseff, along with corruption accusations against numerous politicians at the highest levels in that country, as well as a plunging peso and other economic jitters in Mexico following Donald Trump's election as U.S. president. Meantime, Venezuela has been designated as a hyperinflationary economy amid political gridlock, and Colombia signed peace accords ending five decades of civil war and saw its president, Juan Manuel Santos, named the year's Nobel Peace Prize winner. Which countries will be the region's major hotspots in 2017? What trends in the region could be the most beneficial, and which could be the most destabilizing, for businesses in the year ahead? What are the biggest internal or external forces that will affect the region's politics and economies in the coming year?**

A **Adam Isacson, senior associate for defense oversight at the Washington Office on Latin America:** "Most Latin American economies are commodity-dependent. As long as commodity prices remain low, much of the region will be condemned to muddling through in 2017. Among the majority muddling through is post-FARC Colombia, which has positive growth and an improved

security outlook, but will be implementing a costly new peace accord despite a budget deficit nearing 4 percent of GDP. Some won't be able to muddle through. The hyperinflationary curve illustrates how intolerable life is becoming in Venezuela, and with agony increasing at a steeper rate, it is the Latin American nation most likely to experience a security and humanitarian emergency in 2017. Brazil will be on a knife's edge as new austerity measures force back into poverty millions who only just emerged from it. After an anti-corruption push forced a president from power in 2015, Guatemala is experiencing a steady backlash by what analysts like Steven Dudley call the 'mafia state.' Even if violent crime rates recede somewhat in El Salvador and Honduras, the institutional failure and corruption that enabled them will continue, and hundreds of thousands will again seek refuge elsewhere. Mexico will also have a rough year. Not because of commodities, but because violent crime is rising again, and because of a huge external factor: Donald Trump. Souring relations with the United States, and a possible push to renegotiate trade deals, could cause Mexico's foreign investment to slump."

EDITOR'S NOTE: More commentary on this topic appears in the Dec. 23 issue of the Latin America Advisor.

Nicolás Maduro said the decision will help protect jobs and incomes, though critics say it will worsen Venezuela's already volatile economic crisis. Maduro said he is raising the monthly minimum wage to 40,000 bolívars—about \$60 at the highest official exchange rate or \$12 on the black market. The International Monetary Fund says Venezuela's inflation will reach 1,600

percent this year. The government's decision to increase the minimum wage is the fifth such increase this year and is aimed at benefiting government employees, the armed forces and pensioners. "In times of economic war and mafia attacks ... we must protect employment and workers' income," Maduro said. The embattled president's critics say his mismanagement

NEWS BRIEFS

Four Killed in Latest Brazil Prison Riot

Four people have been killed in clashes between rival gangs in the Vidal Pessoa prison in the Brazilian city of Manaus, BBC News reported Jan. 9. The incident marked the third deadly prison riot in a week in Brazil. A riot Jan. 1 in the Anisio Jobim Penitentiary Center prison on the outskirts of Manaus led to 56 deaths, and one at the Monte Cristo Agricultural Penitentiary in Roraima state on Jan. 6 left 33 people dead.

Human Rights Court Orders Brazil to Pay Enslaved Farm Workers

The Inter-American Court of Human Rights has ordered Brazil's government to pay a total of \$5 million to 128 former farm workers who were enslaved on a Brazilian farm from 1988 to 2000, The Guardian reported Jan. 9. Brazil is the first country to be fined by the court for failing to prevent slavery within its borders. The court is the legal arm of the Organization of American States. The court in December had ruled that Brazil did not have in place adequate measures and policies to prevent modern slavery.

Peruvian Government to Lower VAT to 17% in July

The Peruvian government on Jan. 7 passed a law that will lower the value-added tax by one point to 17 percent starting in July, six months later than the previously planned start date for the change, Reuters reported. The reduction will only take effect if tax revenue equals at least 7.2 percent of GDP for the year through May 31. President Pedro Pablo Kuczynski, who took office last July, campaigned on the promise to lower the VAT rate to 15 percent from 18 percent in order to increase consumption and broaden the payer base, but his government has decided to lower the rate more gradually.

of the oil-rich country's economy is largely to blame for the economic crisis and that a sustained drop in global oil prices has exacerbated the situation. Maduro has in the past accused the country's elite of sabotaging the economy for political gain. Venezuela's main business association said the increase in the minimum wage came without warning and could lead to layoffs and could force small businesses to close.

POLITICAL NEWS

Colombia to Resume Peace Talks With ELN

Colombia's government is planning to resume peace talks this week with the country's National Liberation Army, or ELN, rebels this week, the government said Jan. 8, Agence France-Presse



Restrepo // File Photo: Colombian Government.

reported. The announcement came a month and a half after President Juan Manuel Santos' government signed a renegotiated peace deal with the larger Revolutionary Armed Forces of Colombia, or FARC rebels. Negotiations with the ELN had stalled even as the government started implementing the peace deal with the FARC. Juan Camilo Restrepo, the government's lead negotiator with the ELN, said the talks with the smaller rebel group would start later this week. "The resumption of talks to fix the date for installing the public roundtable will take place next Thursday, January 12 in Quito, Ecuador," Restrepo said in a statement from Bogotá, AFP reported. The ELN had asked in November for the talks to be suspended, the government said. Restrepo said he will be in charge of a special commission that will meet

with representatives of the ELN in order to "seek formulas of understanding that will lead to the start of a public roundtable for talks."

Taiwanese President Begins Four-Nation Central America Tour

Taiwanese President Tsai Ing-wen on Jan. 9 began her trip to four Central American countries with the goal of strengthening ties, after meeting with U.S. politicians in Texas in a visit that angered China, Reuters reported. During her first stop in the tour, Tsai praised Honduras for its loyalty and emphasized economic cooperation, adding that President Juan Orlando Hernández had been the first to congratulate her on her 2016 election victory. The visit has come under scrutiny in the wake of U.S. President-elect Donald Trump accepting a congratulatory telephone call from Tsai on his election victory, as well as his calling into question the United States' commitment to China's official stance that Taiwan is part of one China. Following her trip to Honduras, Tsai flew to Nicaragua, and she is also scheduled to visit El Salvador and Guatemala.

Six Killed in Mexico Protests Over Gasoline Prices

The death toll has risen to six, and more than 1,500 people have now been arrested, during protests in Mexico against the rise in gasoline prices, BBC News reported Jan. 7. The demonstrations erupted after President Enrique Peña Nieto's government on Jan. 1 eliminated a subsidy on gasoline, which led to a 20 percent price increase. The subsidy's elimination brought the average price of a gallon of gasoline to about 80 pesos (\$3.77), equal to the daily minimum wage. Among those killed was a police officer who tried to halt robberies taking place at a gas station. Peña Nieto called for calm, saying the increase in gasoline prices was necessary after a rise in global oil prices.

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efficient against money laundering, but corruption and excessive bureaucracy have been a burden. This new legislative decree (number 1249) aims to crack down on this problem through empowering the Financial Intelligence Unit, which will reduce the time and unnecessary procedures in accessing required relevant information. The list of participants involved in the fight against these felonies has been extended, and more people and entities are now obligated to report suspicious activities.”

A **Francisco Durand, professor of political science at the Catholic University of Peru:** “The (relative) strengthening of Peru’s Financial Intelligence Unit is mostly a result of political scandals in the last election (Keiko Fujimori’s right-hand person is being investigated by the DEA on charges of money laundering) that placed the issue of banking and tax secrecy as obstacles to investigations. It is also a result of Peru’s intention to join OECD countries, a plan that requires closing gaps and reinforcing institutions, in particular providing the state tools to deal with financial crimes. Because of those two factors, Congress reluctantly decided to allow judges (within some limits) to lift secrecy provisions. The Financial Intelligence Unit, fortunately, is part of the bank

superintendency, an elite institution that is fairly autonomous. Despite these advances, the real question is whether banks will play a more active role in reporting cases in which money laundering may be involved and whether judges will find the will to research

“**The major issue is the extent of Peru’s illicit economies.**”

— Francisco Durand

complex, dangerous, politically charged cases. In any case, the major issue is the extent of Peru’s illicit economies (such as in drugs, smuggling, fine woods, gold and counterfeit money), which should be the real concern. Understanding how they work is crucial, and they require investigations that should go beyond financial activities and eventually look at links to the political system. It may not come as a surprise that these ‘interest groups’ are well represented.”

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

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