LATIN AMERICA ADVISOR

FINANCIAL SERVICES ADVISOR

A PUBLICATION OF THE DIALOGUE

www.thedialogue.org

January 12-25, 2017

FEATURED Q&A

Will Brazil's Temer Successfully Lower Credit Card Rates?

Brazilian President Michel Temer is seeking to lower credit card interest rates in Brazil, where consumers pay interest rates of more than 400 percent annually. // File Photo: Brazilian Government.

Q **The administration of Brazilian President Michel Temer last month revealed details of a plan to reduce credit card interest rates, which average approximately 475 percent per annum, according to the central bank. Among other changes, Temer is seeking to reduce interest rates on revolving credit card accounts by more than half and wants consumers to be able to pay off credit card debts in installments with reduced rates. Why are credit card interest rates so high in Brazil? Will Temer's government successfully convince banks to make the changes? How are high credit card interest rates affecting Brazilian banks and consumers, and what would lowering those interest rates mean for them and the country's economy?**

A **Lindsay Lehr, senior director at Americas Market Intelligence in Oakland, Calif.:** "Credit card interest rates are high across Latin America for three main reasons: 1) lack of competition in the banking industry; 2) lack of tools to evaluate cardholders' creditworthiness; and 3) the phenomenon of interest-free financing. These factors hold particularly true in Brazil. In contrast to the United States, where there are more than 5,000 commercial banks, banking in Latin America is highly consolidated. Brazil has around 120 commercial banks, the top five representing 72 percent of overall bank assets. Banco do Brasil, Bradesco, Itaú and Santander together account for 78 percent of all card issuing. With limited competition, banks have no incentive to lower interest rates. Additionally, Brazilian banks cannot properly assess consumer creditworthiness, much less small-business creditworthiness. Amazingly, only in 2016 did Brazil's five largest banks come together to

Continued on page 3

TOP NEWS

FINANCIAL SERVICES

Itaú Unibanco Postponing Acquisition of CorpBanca Unit

The Brazilian financial institution said it is delaying its acquisition of the Chilean bank's Colombian unit until 2022.

Page 2

INSURANCE

Aon's Deal to Acquire Admix Completed

The London-based insurance and reinsurance broker has finalized its acquisition of Brazilian health and benefits brokerage Admix. The deal will double Aon's coverage in Brazil, the company said.

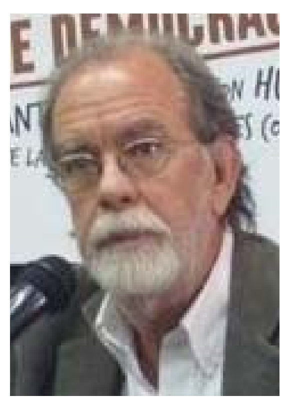
Page 3

FINANCIAL SERVICES

Fraga Tapped to Head Argentina's Banco de la Nación

Argentine President Mauricio Macri named economist Javier González Fraga as president of state-controlled Banco de La Nación, the country's largest financial institution. He replaces Carlos Melconián in that post.

Page 2



Fraga // File Photo: Argentine Government.

FINANCIAL SERVICES NEWS

Itaú Unibanco to Delay Acquisition of CorpBanca Unit

Brazil's Itaú Unibanco announced Jan. 20 that it reached an agreement to postpone until January 2022 its acquisition of shares in the Colombian unit of CorpBanca, Colombian newspaper El Colombiano reported. An acquisition would make Itaú the fifth-largest bank in Colombia. The Brazilian bank did not give its reason for the postponement of the acquisition of CorpBanca, which has already been approved by the Colombian bank's shareholders, the newspaper reported. The completion the merger of Itaú's Chilean unit with Chile-based Corpbanca was announced last April, and it was expected that Itaú would acquire the shares of CorpBanca's Colombian unit by Jan. 29. The agreement to postpone the acquisition now substitutes an obligation for a public offering of CorpBanca Colombia shares for the registration of the bank as a public company, with shares trading on Colombia's stock market.

CorpBanca Colombia's shareholders have already approved the acquisition.

Honduras-Based Ficohsa Acquires Seguros Alianza

Honduras-based bank Grupo Financiero Ficohsa, through its subsidiary Interamericana Holding Group, announced that it acquired a 100 percent stake in Seguros Alianza, an insurer for Guatemala's financial system, Honduran newspaper La Tribuna reported Jan. 18. The transaction was authorized by both the Guatemalan and Panamanian bank regulators, the Superintendency of Guatemalan Banks and the Superintendency of Panama. The move is part of Grupo Financiero Ficohsa's strategy to expand throughout Central America, through Ficohsa Seguros. "We are pleased with the regulator's decision, and we thank them for having the confidence in our group to give us the approval to purchase Seguros Alianza," said Camilo Atala, the president of Grupo Financiero Ficohsa. "With this expansion, we continue investing in Guatemala, Central America's largest economy. Today, we reaffirm our promise to continue contributing to the country's development," he said. The bank is the primary shareholder in Ficohsa Seguros, the largest insurance provider in Honduras and the fifth-largest in Central America. Ficohsa Seguros' Guatemala office will be led by Enrique Rodríguez, the CEO of the Ficohsa bank in Guatemala. Rodríguez also contributes to operations at Ficohsa Seguros in Honduras.

Argentina Closes Deal to Borrow $6 Bn

Argentina on Jan. 12 closed a deal to borrow $6 billion in 18-month loans from six international banks, to ensure the government can cover most of this year's financing in the first month of 2017, Finance Minister Luis Caputo

Caputo // File Photo: Argentine Government.

said, The Wall Street Journal reported. The deal will reduce the country's need to sell bonds this year. Next Thursday, Caputo and other officials will travel abroad to promote the issuance of as much as $7 billion in bonds. The deal

NEWS BRIEFS

Jamaica Mortgage Bank Rejects Auditor's Claims of Poor Credit Assessments

The Jamaica Mortgage Bank has rejected an assertion by the Caribbean country's Auditor General's Department that the bank has a poor process for assessing creditworthiness, the Jamaica Gleaner reported Jan. 13. A report by the auditor said the bank has not consistently conducted proper due diligence in its approval of loans, which could have cost it 225 million Jamaican dollars ($1.74 million). The Jamaica Mortgage Bank provides loans for housing development to developers and financial institutions.

Argentine President Replaces Head of Banco de la Nación

Argentine President Mauricio Macri on Jan. 18 named economist Javier González Fraga as president of Banco de la Nación, Argentina's largest financial institution, as Macri looks to jump start the economy, Reuters reported. Fraga was president of Argentina's central bank in 1989 and 1990, helping to pull the country out of hyperinflation during that period. Fraga will replace Carlos Melconián as the head of state-controlled Banco de la Nación.

Peruvian Bank Association Sees Strength in Sector

The Peruvian Bank Association, or Asbanc, said Jan. 11 that sector indicators for 2016 show strength in the South American country's banking sector, state-run news agency Andina reported. The country's banks have a loan portfolio balance of about $69.3 billion, a 3.62 percent rise from the previous year. Peruvian banks also have adequate liquidity to conduct financial intermediation activities, meet obligations and satisfy the financial needs of companies and individuals, said the association.

stipulates that Argentina will borrow $1 billion each from Santander, BBVA Frances, Citibank, Deutsche Bank, HSBC and J.P. Morgan and will pay an interest rate of Libor plus 290 basis points. “This is very, very positive news for us,” Caputo said following the announcement. Caputo is looking to guarantee this year’s financing needs, which will be about $20 billion in new debt, without having to pay potentially higher interest rates that some economists believe could result from the presidential election of Donald Trump in the United States. “Nobody knows what’s going to happen … But our job is to minimize risk. This clears a potential cloud and helps reduce uncertainty so people can say that this year won’t be tough,” Caputo said.

INSURANCE NEWS

Aon Finalizes Acquisition of Brazil’s Admix

London-based insurance and reinsurance broker Aon has finalized its acquisition of Admix, a Brazilian health and benefits brokerage company, Insurance Business Review reported Jan. 19. The acquisition doubles Aon’s coverage in Brazil and will expand the company’s ability to reach customers in Latin America, the company said. “Admix’s brokerage and operational platform combined with Aon’s world-class actuarial, brokerage and consulting capabilities creates the largest, deepest and most experienced health and benefits team in the Brazil market,” said John Zern, the health and benefits CEO for Aon. “Bringing together Aon and Admix allows us to expand our capabilities to better serve clients throughout Latin America.” São Paulo-headquartered Admix has been in business for more than 25 years and has more than 900 employees. Admix says it has more than 1.4 million beneficiaries across 6,700 firms of many industries and sizes, in addition to $310 million in annual health and benefits premiums. It also has 500 associated brokers and focuses on Brazil’s small- and medium-sized enterprises.

FEATURED Q&A / Continued from page 1

propose the creation of a credit research agency. Leading independent credit bureau Boa Vista Serviços and the local subsidiaries of Experian, Fair Isaac Corp and FICO offer credit-reporting services in Brazil, but coverage of these agencies of the adult population reaches only 53 percent. This is according to the World Bank’s Ease of Doing Business index and compares to nearly 100 percent in the United States. The result is that while banks push credit cards beyond the affluent to the middle class, as issuers Bradesco, Banco do Brasil and Caixa have done, they lack the necessary data to vet these customers and charge high interest to mitigate risk. Finally, a phenomenon known as interest-free financing, ubiquitous throughout Latin America, has made Brazilians addicted to shopping. Partnerships between banks and merchants, in which free financing is offered to the customer at the point of sale, has enabled Brazilians to consume well beyond their means. This, combined with a cultural factor—Brazilians are image-conscious, tech-savvy, brand-oriented consumers—is a recipe for over-indebtedness. When the Brazilian economy declined in 2014, many debt-strapped Brazilians found themselves unable to make their monthly credit card payments, and banks hiked interest rates in response.”

A **Natan Rodeguero, regional head for Latin America at M-Brain in São Paulo:** “Credit card rates in Brazil are among the highest in the world, and this can be in great part explained in one word: risk. Two main reasons support risk as the villain. On one hand, the level of information from the customer in the hands of credit card lenders is poor and usually outdated; any significant financial accident that happens with a card owner will take a long time to reach the ears of those who lend money. On the other hand, if the borrower ever becomes delinquent, companies know how difficult it will be to collect the money, given that the card owner’s assets are unknown and difficult to locate, plus the legal and financial systems have many intricacies to enforce collection. With that, the system’s overall risk is elevated, and is diluted among the entire client base. With Brazil’s soaring unemployment

> **“The level of information from the customer in the hands of credit card lenders is poor and usually outdated.”**
> — Natan Rodeguero

rates and the erosion of purchasing power, President Temer is correct in trying to find means to ease the burden on customers, and lowering credit card rates—any percentage point—is definitely welcome. Brazilian banks and ABECS, the Brazilian Association of Credit Card Companies, support Temer’s plan, reporting that the proposed changes will allow customers to better control their expenses and more easily pay revolving debt, eventually reducing the sector’s delinquency rates—and thus interest rates. However, lowering credit card interest rates, while certainly a long-sought objective, are very far from solving Brazil’s extremely bad economic situation, which depends on a much more complex set of variables, including much-needed fiscal, political and legal reforms.”

A **Cynthia Cohen Freue, director of financial institutions ratings at S&P Global in Buenos Aires:** “Interest rates in Brazil are relatively high as compared to other Latin American countries. We believe the main reasons are: the relatively high benchmark rate (although it’s decreasing) that affects active and passive rates; the large cost of credit, which includes steep loan losses

Continued on page 6

POLITICAL NEWS

Peña Nieto Vows to Protect Mexican Interests in Talks With U.S.

Mexican President Enrique Peña Nieto on Jan. 23 vowed to protect migrants, investment and other national interests ahead of negotiations with the United States under newly inaugurated President Donald Trump, The Wall Street Journal reported. Peña Nieto outlined the country's position on future relations between the two countries and said he would seek to reach agreements that would benefit both sides. "We will work for a border that unites us, not one that divides us," he said. "Mexico doesn't believe in walls; our country believes in bridges." The remarks came as Trump on Jan. 23 signed an order to withdraw the United States from the Trans-Pacific Partnership, a 12-nation trade agreement that includes Mexico, Canada, Peru and Chile. Trump also signed an order stating his intention to renegotiate the North American Free Trade Agreement, or NAFTA. Mexican Foreign Minister Luis Videgaray and Economy Minister Ildefonso Guajardo will lead a Mexican delegation to Washington this week to begin talks with senior Trump administration officials. Peña Nieto plans to visit the United States by the end of the month. The Mexican president also said Monday he would negotiate bilateral trade agreements with members of the TPP, as well as with the United Kingdom, once it leaves the European Union.

U.S. May Sanction Venezuelan Officials for Graft Tied to Food

Members of the U.S. Congress are calling for sanctions against Venezuelan officials following an Associated Press report that the South American country's military is at the center of a corruption scheme tied to the distribution of scarce food in the country, the wire service reported Jan. 23. Venezuelan President Nicolás Maduro has given the military increasing control of the country's food supply amid widespread shortages of basic staple foods. The report that the AP published last month detailed a chain of corruption by the military related to food distribution, including kickbacks to generals for food contracts and bribery related to moving food out of ports. Some of the food is bought in the United States, with bribes flowing through the U.S. banking system, according to the report. "When the military is profiting off of food distribution while the Venezuelan people increasingly starve, corruption has reached a new level of depravity that cannot go unno-

CAPITOL HILL WATCH

Adriano Espaillat, First Dominican-American Elected to U.S. Congress

Name:
Adriano Espaillat

Espaillat // File Photo: Espaillat Campaign.

In the News:
Rep. Adriano Espaillat (D-N.Y.) on Jan. 3 became the first Dominican-American and the first formerly undocumented immigrant to be sworn into the U.S. Congress. He represents New York's 13th congressional district, which includes Upper Manhattan and part of the Bronx in New York City. He succeeds now-retired Rep. Charles Rangel. Espaillat previously served as a New York state senator and was the ranking member of the state Senate's Housing, Construction, and Community Development Committee and chair of the Senate Puerto Rican/Latino Caucus.

Background:
Espaillat, 62, was born in Santiago, Dominican Republic. He moved to New York at the age of nine with his parents to live with his grandparents. "We came on a visitor's visa and overstayed our visa, and we were for a short term of time without a green card, and then we had to go back to get a green card to be able to be admitted to the country legally. For any child or family, that's a traumatic experience, particularly when you're already united with the rest of your family," he said, the New York Daily News reported. Before serving as state senator, Espaillat served in the New York State Assembly, the lower house of the New York State Legislature.

As state senator, he sponsored laws encouraging the construction and preservation of affordable housing, developing free legal services for tenants, providing 35,000 low-income day care workers access to healthcare, providing workers' compensation to 40,000 livery cab drivers and improving hospital transportation services.

Of Note:
Espaillat has said that he wants to talk about his background to other members of the House of Representatives in the hopes of influencing the debate on immigration. He has also said he'll stand up to President-elect Donald Trump on immigration issues.

Sources: Espaillat Campaign, New York Daily News, WNYC

NEWS BRIEFS

Brazilian Health Officials Confirm 25 Deaths in Yellow Fever Outbreak

The Brazilian Health Ministry said it has confirmed 47 cases of yellow fever and 25 deaths as a result of the mosquito-borne disease, the Associated Press reported Jan. 23. Authorities say they are also investigating another 160 suspected cases of the disease. The outbreak is centered in the east-central state of Minas Gerais, whose governor declared a state of emergency following an initial report of eight deaths. The government said it sent two million extra doses of the vaccine against yellow fever to Minas Gerais, and that hundreds of thousands of additional doses will be sent there and to nearby Espirito Santo this week.

'El Chapo' Enters Not Guilty Plea in U.S. Federal Court

Drug kingpin Joaquín "El Chapo" Guzmán on Jan. 20 entered a plea of not guilty at his arraignment in U.S. federal court in Brooklyn. Guzmán, who was extradited from Mexico the previous day, faces a 17-count indictment that alleges he led a criminal enterprise that imported and distributed massive amounts of narcotics into the United States and also conspired to murder rivals who threatened his operation, CNN reported. He also faces firearms and money laundering charges.

Chile's Central Bank Cuts Benchmark Interest Rate

Chile's central bank cut its overnight rate for the first time since 2014, as economic growth lagged and the inflation rate fell to its lowest level in three years, Bloomberg News reported Jan. 19. The central bank lowered its benchmark rate by a quarter-point to 3.25 percent. Economic activity declined in the fourth quarter, falling on an annual basis in October for the first time in the last seven years.

ticed," said U.S. Senator Ben Cardin (D-Md.), the ranking member of the Senate Foreign Relations Committee. Senator Marco Rubio (R-Fla.) called on U.S. President Donald Trump to take action against the officials named in the report. "This should be one of President

Cardin // File Photo: U.S. Senate.

Trump's first actions in office, said Rubio. U.S. prosecutors are investigating senior officials in Venezuela, including military officials, for laundering money through the U.S. banking system, people with knowledge of the investigation told the AP. No charges have been filed, and Maduro's government has not responded to the report. Also on Monday, several thousand people marched in an anti-government protest in Caracas, though protest organizers had hoped for much larger nationwide demonstrations, The Washington Post reported. "Motivation has decreased because the opposition doesn't have a common aim," Luis Vicente León, the president of polling firm Datanalisis, told the newspaper.

Chile Seeking Foreign Help to Fight Wildfires

The Chilean government is seeking foreign aid to help combat some of the country's worst-ever wildfires, which have destroyed more than 100,000 hectares of forest, the Associated Press reported Jan. 23. Chilean Agriculture Minister Carlos Furche said Spain, Peru and Mexico are sending help to fight the fires. The spread of the wildfires was exacerbated by a prolonged drought and temperatures that have topped 100 degrees Fahrenheit. "The firefighters are doing all that is humanly possible," President Michelle Bachelet said. She asked for help from countries that have had experience with forest fires. The hardest-hit region was south-central O'Higgins, where the flames destroyed homes, pasture and livestock. Ranchers were forced to release animals in order to avoid the oncoming blazes, and the government declared a state of emergency for the area. Smoke from the fires covered cities across the country, including the capital, Santiago. Chile's National Forestry Corporation said as of Jan. 21 that there were 129 wildfires across the country. The number dropped to 108 the following day.

ECONOMIC NEWS

Sanguino Named as New Venezuelan Central Bank Chief

Venezuelan President Nicolás Maduro on Jan. 22 named Socialist Party lawmaker Ricardo Sanguino as head of the central bank as the country tries to rebound from its crippling economic crisis, The Wall Street Journal reported. "I want to start a new stage of development of the central bank," Maduro said in a televised address, without providing any further details. Sanguino, who has been a legislator since 2000, and who headed the National Assembly's budget commission, replaces mathematician Nelson Merentes, who has headed the bank since 2009. Merentes' term was characterized by excessive printing of currency, which contributed to the downward spiral of the value of the bolívar. During his announcement, Maduro called Sanguino "one of the most studious and knowledgeable men when it comes to the financial, economic and monetary life of the country." As Venezuela's economy has continuously floundered in recent years, the central bank has opted to stop regular publishing of basic data like gross domestic product and inflation. The economy is estimated to have shrunk by 16.8 percent last year, its worst year on record, according to a Jan. 17 report by Torino Capital economist Francisco Rodríguez.

FEATURED Q&A / Continued from page 3

that require high levels of provisions; high taxes and legal costs; and a stringent labor market. Moreover, even though Brazil has a concentrated financial system, it is a result of the consolidation of a more fragmented system, and banks have not yet been able to fully exploit economies of scale, due to rigidities in operations, such as a higher number of branches as compared to other countries. We believe it will be challenging to reduce credit card interest rates in the current context, due to the complicated environment the banks are dealing with, as their bottom line results are being hit by the increasing provision levels. Moreover, although a reduction of interest rates could provide some relief to highly indebted consumers, increasing unemployment will likely offset this effect, resulting in higher losses in the credit card portfolios. This portfolio represented only 5.8 percent of total lending as of November, and the share has remained relatively stable. A reduction in credit card interest rates will likely result in lower incentives for banks to operate in this segment."

A **Drausio Giacomelli, head of emerging market strategy and economics at Deutsche Bank in New York:** "High interest rates on credit cards are just the tip of the iceberg. The rates are a manifestation of a deeper structural problem that starts with the high level of interest rates required to roll over Brazil's public debt. Despite the recent 75 basis-point cut, Brazil's nominal and real rates remain among the highest in the world, at 13 percent for the Selic and about 6 percent for inflation-linked bonds. Brazil's dramatic deterioration in fiscal accounts and failure throughout its history to generate the fiscal room to extend the maturity and duration of its debt, as others such as Mexico and South Africa have done, are at the core of chronically high interest rates, and they should prevent interest rates from stabilizing at levels comparable to those in most emerging markets—even those more indebted than Brazil. That Brazilian states and its Congress have resisted austerity magnifies the dissonance between policy/politics and the critical juncture the country faces on fiscal matters. Rather than tackling these problems through the years, however, Brazil has resorted to tangential measures aimed at mitigating the high cost of credit, which has crippled investment. Public credit (via state-owned banks and BNDES) has been onerous fiscally, and it has also diluted monetary policy, thus often requiring higher interest rates to offset loser official credit stance. Delays in other structural measures to reduce asymmetries of information in lending (facilitating access and enhancing credit records) have also been important in the case of credit cards and other revolving credit channels. Normalizing credit conditions in Brazil thus requires a strong fiscal effort, the elimination of official bypasses to central bank liquidity management and microeconomic reforms to reduce information bottlenecks and asymmetries."

> **"Brazil has resorted to tangential measures aimed at mitigating the high cost of credit, which has crippled investment."**
> — Drausio Giacomelli

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

FINANCIAL SERVICES ADVISOR
is published biweekly by the
Inter-American Dialogue, Copyright © 2017

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org

THEDIALOGUE

Financial Services Advisor is published biweekly, with the exception of major U.S. holidays, by the Inter-American Dialogue at
1155 15th Street NW, Suite 800
Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at
freetrial@thedialogue.org

