LATIN AMERICA ADVISOR

FINANCIAL SERVICES ADVISOR

A PUBLICATION OF THE DIALOGUE

www.thedialogue.org

February 23-March 8, 2017

FEATURED Q&A

Would Taxing Remittances Have Unintended Results?

Remittances sent from the United States rose last year, with $27 billion being sent just to Mexico, a 9 percent increase from 2015. // Image: Myfuture.com.

Q **An executive overseeing Latin America business at remittances service provider MoneyGram recently said the industry is concerned that a tax on outgoing money transfers from the United States, such as the one that U.S. President Donald Trump has in the past proposed as a means of financing the building of a border wall between the United States and Mexico, would undo the progress the industry has made in increasing transparency in the money-transfer sector, dissuading people from using official channels to send money back home and undoing progress made on mitigating money laundering in the region. Do you agree with the remittance industry's argument? Could the Trump administration mitigate negative outcomes while still implementing the tax? What are some other likely consequences for the remittances sector, or other unintended results, if the Trump administration imposes a tax on remittances?**

A **Kathy Tomasofsky, director of the Money Services Business Association:** "The Trump administration has discussed placing a tax on remittances to support improved southwest border security. In addition to the federal proposal, several states are also considering remittance or 'money transmission' taxes. The MSBA strongly opposes these taxes and continues to advocate on behalf of the industry against them. If implemented, consumers will turn to alternative solutions to transmit their money. The federal government has not proposed an actual amount, but the tax amounts being proposed at the state level significantly increase the cost of money transmission. This increased cost to consumers encourages them to look for less-expensive

Continued on page 3

TOP NEWS

INSURANCE

Pan-American Life Surpasses $1 Bn in Annual Revenue

The New Orleans-based company said its operating earnings and net income for 2016 grew more than 30 percent year-on-year. Pan-American Life in 2013 acquired the majority of MetLife's assets in the Caribbean, Panama and Costa Rica.

Page 2

CREDIT CARDS

Mastercard Seeking to Boost Mobile Payments

Among Mastercard's projects is one to launch a contactless payment system for public transportation systems in Brazil.

Page 3

BANKING

BBVA to Invest $1.5 Billion in Mexico Unit

Francisco González, the CEO of BBVA, said the Spanish bank is investing in its BBVA Bancomer unit in Mexico due to its "enormous confidence" in the unit and in the country.

Page 2

González // File Photo: BBVA.

BANKING NEWS

BBVA to Invest $1.5 Bn in Mexican Bancomer Unit

Spain-based BBVA announced March 3 that it will invest $1.5 billion in its BBVA Bancomer unit in Mexico, the country's largest bank by assets. "We are long-term investors, and I hope we get more opportunities to continue to invest. I have always believed in this country, we have had good moments, not so good ones too, but Mexico is here, always solid," BBVA Chairman Francisco González said after meeting with Mexican Finance Minister José Antonio Meade. "We have an enormous confidence in Mexico, in BBVA Bancomer, in our team and the Mexican business community." González said Mexico's young population and the dynamics of its industries and business community, as well as its close relationship with the United States, make it an attractive place for investment.

INSURANCE NEWS

Pan-American Life Surpasses $1 Billion in Annual Revenue

New Orleans-based Pan-American Life Insurance Group on Feb. 21 said its revenues last year topped $1 billion for the first time in its century-long history. Operating earnings and net income for the year ending Dec. 31, 2016 grew more than 30 percent as compared to the prior year at the company, which acquired the majority of MetLife's assets in the Caribbean, Panama and Costa Rica in 2013. International business now accounts for 55 percent of the company's premiums, while business in the United States accounts for 45 percent. Net income for 2016 increased by 38 percent to $48.9 million, as compared to $35.3 million the year before. Total assets for the group grew to $5.6 billion, a 3.28 percent increase, while its total equity increased 10 percent to $933 million. Led by longtime CEO José Suquet, PALIG, as the company refers to itself, employs more than 1,700 people worldwide and offers individual and group life, accident and health insurance, employee benefits and financial services to markets across the Americas, with a strong presence in the United States and northern South America, as well as Central America and the Caribbean.

Sagicor Group Jamaica Reaches New Earnings Record

Financial services company Sagicor Group Jamaica reached a new earnings record last year, reporting approximately $88 million in earnings for the 2016 calendar year, The Jamaica Gleaner reported March 3. The company, which operates in insurance, commercial banking, investment and wealth management, saw its profit rise 15 percent, and its revenue increase by more than 8 percent to nearly $466 million. The company also disclosed a "breach of insurance regulations" at its flagship business in the financial report it released last week. The company, a subsidiary of Barbados-based Sagicor Financial Corporation, said that as of year-end last year, "Sagicor Life Jamaica Limited, exceeded the regulated 5.0 per cent maximum of related party balances to total assets of the company." The company said its management is in discussions with the regulator in relation to the matter. Sagicor Group Jamaica's Chief Financial Officer Ivan Carter said the group's strong performance was due to the streamlining of its operations following the acquisition of RBC Jamaica, among other factors.

Profit rose 15 percent, and revenue increased more than 8 percent last year.

NEWS BRIEFS

Mexico's Private-Sector Credit Growth Slows

Credit growth to Mexico's private sector slowed to 7.9 percent year-on-year in January, a decrease from 11.5 percent year-on-year in December, Goldman Sachs said in a Feb. 28 note, citing Mexico's central bank. Mexico saw a decrease in January as compared to December in the growth of consumer and corporate credit as well as mortgage credit. "Corporate credit is likely to decelerate further going forward given the lackluster investment environment driven by modest final demand and heightened domestic and external uncertainty, and gradually more exigent credit supply conditions," said the note by Goldman Sachs' Alberto Ramos.

Scotiabank Jamaica Ends Charge to Break Banknote

Scotiabank Jamaica has ended its brief practice of charging customers to break a 5000 Jamaican dollar ($38.83) banknote, the Jamaica Gleaner reported March 6. Bank customers recently complained about having to pay 385 Jamaican dollars ($2.99) to break the note. David Noel, the bank's deputy chief executive officer said the charge was being applied incorrectly and was never intended for individual retail customers. The bank said the charge will only apply to people wanting to exchange more than 20,000 Jamaican dollars for smaller bills.

Chile's Lilienfeld Names Rossi Chief Executive

Chile-based insurance broker Lilienfeld Corredores de Seguros has named Claudio Rossi as its chief executive officer, the company said in a statement March 2. As CEO, Rossi succeeds Renato Lilienfeld, who has led the company since 1986. From 2000 to 2016, Rossi served as CEO of the Chilean unit of Chubb Insurance. He previously worked for CIGNA from 1983 to 1999 and INA from 1981 to 1982.

CREDIT CARD NEWS

Mastercard Seeking to Boost Urban Mobile Payments

Multinational financial services company Mastercard is working on about 20 projects throughout Latin America that aim to increase and improve mobile urban access in the region's cities, EFE reported March 3. Mastercard's head of business development in Latin America and the Caribbean, Jorge Noguera, said the company is using its payment technology to contribute to expanding the region's urban mobile access. Noguera said Mastercard

Noguera // File Photo: Mastercard.

is already using its technology in the public transportation systems of the Colombian cities of Bogotá, Cali, Barranquilla, Medellín and Pereira. Public transportation passengers can use their bank cards to pay fares using a "contactless" electronic payment method. Mastercard will also launch a contactless payment system for public transportation in the Brazilian cities of Curitiba, Rio de Janeiro and São Paulo, and the company has signed agreements with other Latin American cities to implement a similar system, though Noguera said each city and country's transportation system will have its own challenges to address. Mastercard said it is contributing to the creation of "smart cities" in Latin America via its payment technology, since it simplifies payment methods and reduces costs for transportation systems. Noguera added that the anonymous data collected by users when ordering transport tickets may prove useful for the government when making investment decisions.

FEATURED Q&A / Continued from page 1

and less-transparent methods to send money. The industry has worked very hard to implement strong Bank Secrecy Act/anti-money laundering programs and collaborate with law-enforcement. In January 2016, the Government Accountability Office explored the ideas of a remittance tax and enhanced customer verification. The conclusions of the report are that neither of the ideas would provide the desired effect and, in fact, would be harmful to law enforcement and tracking true terrorist financing. Law enforcement agencies did not want to see these actions implemented. We also anticipate that businesses that offer and conduct covered money transmission transactions would be adversely affected. Large and small retail establishments need to change their systems and train employees. The collection of the tax would be very onerous on businesses and would result in increased legal and regulatory costs. The MSBA supports the administration goals of securing the border against terrorists, but taxing family-based remittances with an average of $300 will not achieve that goal."

A **Dan Stein, president of the Federation for American Immigration Reform (FAIR) in Washington:** "Remittances sent by foreign workers in the United States to families back home represent a very significant but often overlooked cost of immigration. According to the World Bank, $133.5 billion flowed out of the United States in 2015. In 2016, remittances to Mexico (mostly from the United States) hit an all-time high of $27 billion—exceeding that country's revenues from oil exports. While individuals have a right to do as they choose with their money, the massive flow of remittances harms local economies in the United States. The $133.5 billion that was earned here and shipped elsewhere is money that is not recirculated through local economies, stimulating local economic growth and generating revenues for local governments. Moreover, many of those working here illegally are being paid under the table, so the money is not taxed when it is earned. President Trump has issued an executive order requiring construction of a border fence that was authorized by Congress in 2007. It is not unreasonable for the United States to consider recouping some of the cost of the fence by collecting fees or taxes on funds being transferred abroad. Moreover, many Mexicans would benefit from the construction of an effective fence. Communities on their side of the border are plagued by criminal cartels that engage in cross-border activities like smuggling of drugs and human beings. As the border is secured, these cartels will loosen their grip on communities in northern Mexico, ending their reign of terror, and enabling honest and productive businesses to flourish."

"It is not unreasonable for the United States to consider recouping some of the cost of the fence by collecting fees or taxes on funds being transferred abroad."

— Dan Stein

A **Oscar Chacón, co-founder and executive director of Alianza Americas:** "I agree with the arguments made by remittances industry executives. However, beyond their arguments, I also flatly disagree with the notion of imposing any taxes on money sent abroad via remittances. By and large, hardworking immigrants who send money to their relatives back home is money for which income taxes have already been collect-

Continued on page 6

ECONOMIC NEWS

Brazil's Economy Contracts for Second Consecutive Year

Brazil's economy contracted for the second consecutive year in 2016, shrinking by 3.6 percent as the country struggles to pull out of its worst recession on record, the Financial Times reported March 7. Data released today shows that Brazil's GDP contracted for the eighth straight quarter in the months from October to December, contracting by 0.9 percent from the previous quarter, worse than the 0.5 percent drop that economists had forecast. The contraction pushed Brazil's GDP down by a total of 3.6 percent for last year, only slightly better than the 3.8 percent drop in GDP in 2015. The back-to-back annual contractions signal that Brazil is suffering its worst and longest recession since the country began keeping records of its economy more than a century ago. Economists are predicting only a 0.5 percent growth in GDP for this year. "In real terms, GDP is now 9 percent below its pre-recession peak," said Neil Shearing, the chief emerging markets economist at Capital Economics. "However, we suspect that Q4 should also mark the end of the recession," he added. "For a start, many of the one-offs that pulled down GDP in Q3 and carried over into Q4 have faded. Auto production is growing once again. More fundamentally, inflation is falling, interest rates have been lowered and financial conditions have eased.

Mexican Economy Minister Defends NAFTA in Detroit

Mexican Economy Minister Ildefonso Guajardo on March 3 defended the North American Free Trade Agreement, or NAFTA, during a visit to Detroit, The Wall Street Journal reported. During the visit, in which he met with executives of U.S. automakers Ford and General Motors, Guajardo said both the United States and Mexico benefit from NAFTA. "Yes, we [in Mexico] are benefiting from this relationship," Guajardo said. "But it is important to understand this is a benefit that goes both ways." U.S. President Donald Trump has vowed to either renegotiate NAFTA in order to get a better deal or to pull the United States out of the accord. During his campaign, Trump frequently decried the loss of U.S. manufacturing jobs to other countries such as Mexico. However, Guajardo said increased automation, not Mexico, is to blame for the loss of U.S. manufacturing jobs. "We are part of the solution. We are not part of the problem," Guajardo told the Detroit Economic Club, The Wall Street Journal reported. "At the end of the day, we have to

ADVISOR Q&A

Would Budget Cuts Hurt U.S. Interests in Latin America?

Q The administration of U.S. President Donald Trump reportedly wants to slash funding to the State Department and the U.S. Agency for International Development by 37 percent, while also pouring an additional $54 billion into the country's defense budget. Both Republican and Democratic lawmakers quickly criticized the cuts, however, saying they would hobble U.S. influence in the world. What would such cuts, and increased defense spending, mean for the United States' role in Latin America and the Caribbean? Should the U.S. military have a larger role, with the State Department taking a smaller role, in the hemisphere? What are the implications for the region if more U.S. foreign policy is conducted through a military and security lens rather than through traditional diplomacy?

A U.S. Rep. Eliot L. Engel (D-N.Y.), ranking member of the House Committee on Foreign Affairs: "Last week, I sent a letter to Secretary of State Rex Tillerson—signed by 103 of my colleagues—urging him to press the White House to reverse these draconian, short-sighted cuts to the Fiscal Year 2018 international affairs budget. I hope the administration quickly changes course and realizes that slashing support for diplomacy and development will only make our country less safe. In recent years, the Obama administration worked with Republicans and Democrats in Congress to renew the U.S. commitment to Latin America and the Caribbean, including through a bold, new foreign assistance package for Central America. We are now addressing the root causes of child migration from Guatemala, Honduras and El Salvador to the United States in order to stop children from being forced to make the perilous journey from their home countries to the U.S.—Mexico border. Dramatically cutting the State Department and USAID's budgets would make it very difficult to continue to do this, while also emasculating long-standing U.S. commitments to Haiti, Colombia and other key partners. Finally, increasing the military's role in our policy toward Latin America and the Caribbean while reducing international affairs spending would severely undermine the civilian, democratic institutions that we have supported for so many years. I hope Secretary Tillerson is able to convince the White House to reverse course before the FY 2018 budget is released. But if not, I will do everything in my power to work with my colleagues in Congress to ensure that these cuts do not take place."

EDITOR'S NOTE: More commentary on this topic appears in the March 6 issue of the Latin America Advisor.

NEWS BRIEFS

Teachers' Strike Shutters Schools in Argentina

A teachers' strike for higher wages in Argentina forced schools to suspend classes on March 6 at the start of the new school year, Agence France-Presse reported today. Thousands of teachers dressed in white and marched in Buenos Aires at the beginning of the two-day strike. The teachers are demanding an increase in pay that is higher than the 17 percent estimated inflation rate this year for Argentina.

Former Haitian President Préval Dies at Age 74

Former Haitian President René Préval, who led the Caribbean nation during the massive earthquake in 2010, the deadliest natural disaster ever recorded in the Americas, died March 3 at his home in Port-au-Prince at the age of 74, The New York Times reported. The cause of death was not released. Préval was the country's first and only president so far to be elected, serve out his term and hand over the position to an elected successor. Préval served as president from 1996 to 2001 and again from 2006 until 2011.

Bolivia's Morales Released From Hospital After Being Treated for Viral Infection

Bolivian President Evo Morales has left Cuba following medical treatment for a sore throat that led him to lose his voice, and traveled to Venezuela to participate in a meeting of the ALBA regional bloc, the Associated Press reported March 5. Venezuelan state television showed images of Morales arriving in Caracas, appearing noticeably slimmer. His voice was hoarse when he spoke, but in brief remarks he said that "thanks to the Cuban doctors, we are recovering." Bolivia's government said Cuban doctors had determined Morales was suffering from a viral infection.

Mexico Revamping Strategy Over Uncertain Future of NAFTA

Mexico is working on a strategy to deal with a potential renegotiation of the North American Free Trade Agreement, or NAFTA, Mexican Economy Minister Ildefonso Guajardo said Monday, Reuters reported. The new plan aims to include better protection for the country's food sector, he added. U.S. President Donald Trump has blamed Mexico for taking American jobs and has threatened to impose import tariffs and even withdraw from NAFTA. However, Guajardo said he would not let Trump's rhetoric affect his work. Speaking to an audience at an event in Mexico City, Guajardo said he understands Trump's frustration, but that "the issue is to find a way to better compete with the world." A large part of Mexico's $60 billion trade surplus comes from trade in the auto industry. Vehicle manufacturers in recent years have increasingly used Mexico as a platform for building cars for export to the United States and elsewhere.

POLITICAL NEWS

Peru's President Recalls Ambassador to Venezuela

Peruvian President Pedro Pablo Kuczynski on March 6 recalled his ambassador to Venezuela after Venezuela's foreign minister called Kuczynski a "coward" and likened him to a subservient "dog" working in the interests of the United States, the Associated Press reported. The statements by Venezuelan Foreign

Rodríguez // File Photo: Venezuelan Government.

Minister Delcy Rodríguez came after Kuczynski visited Washington and met with U.S. President Donald Trump. During the visit, Trump and Kuczynski discussed possible joint action to contain Venezuela's political and economic problems. "He goes round, poor thing, with my respect because he is an elderly man, [like] a good dog who wags its tail at the empire and asks for an intervention in Venezuela," Rodríguez said of Kuczynski, Reuters reported. "He's alone, going round like a crazy man, with no one paying attention." Rodríguez also accused Kuczynski of insulting the memory of late Venezuelan President Hugo Chávez during a recent summit in Colombia. "I also rose and told him, 'look, mister, you are a coward, and I repeat it here, Mr. Kuczynski, you are a coward who dared to tarnish the memory of our commander Hugo Chávez,' " said Rodríguez. In a recent speech at Princeton University, Kuczynski irked Venezuela by saying Latin America was like a "nice dog that's sleeping on the carpet," and not causing problems, except for Venezuela, which the Peruvian leader called "a huge problem." Peru's government said later on Monday that it rejected the "insolent" comments from Venezuela and would send a letter of protest. "The comments made by Venezuela's foreign minister are unacceptable," Peruvian Foreign Minister Ricardo Luna said in a speech to members of Congress.

Mexico Opens Legal Aid Centers in U.S.

Mexico's government on March 4 opened legal aid centers at its 50 consulates in the United States amid concerns about a crackdown on illegal immigration under the administration of U.S. President Donald Trump, Reuters reported. Mexico's foreign minister, Luis Videgaray urged U.S. officials to respect Mexicans' rights and called on the country to allow immigrants in the United States illegally to have a path to legality. "We are not promoting illegality," said Videgaray. Trump, who took office less than two months ago, campaigned on vows to crack down on illegal immigration, including through building a massive multi-billion-dollar wall along the U.S.-Mexico border, and since becoming president has issued orders to initiate more stringent deportation procedures. "Today we are facing a situation that can paradoxically represent an opportunity, when suddenly a government wants to apply the law more severely," said Videgaray. "It is becoming more than evident that to apply the law, which is the obligation of any state, would also imply a real economic damage to this country which highlights the need for immigration reform, an immigration reform that resolves once and for all the legal status of the people." During a visit last month to Mexico City by new U.S. Secretary of State Rex Tillerson and Homeland Security Secretary John Kelly, Videgaray expressed "worry and irritation" about the U.S. policies.

FEATURED Q&A / Continued from page 3

ed. Even in the cases of foreign nationals who are not holders of a work permit or an immigrant visa, but who work in the United States using a fake Social Security Number, income taxes are generally collected. Therefore, taxing them again when they are sending money back home is simply unfair. The notion of building a longer wall between the United States and Mexico is a misguided effort and a very bad public policy move, as it means wasting taxpayers' money, native and foreign-born alike. If in the era of global interdependence, the Trump administration insists on building such a wall, the president should be straight with all U.S. taxpayers and tell them that they all will have to pay for it. Remittances industry executives, as well as people using their services, should become much more outspoken against this misguided idea. As suspected by remittances-sending industry leaders, the effect of such a misguided effort will be to drive more remittances sending to channels that are not transparent and likely to victimize people sending remittances. Given that the alternatives to mainstream channels are likely to be more expensive, one potential result of pursuing the notion of a tax on remittances will be less money received in Latin American and Caribbean countries. Such a practice would only result in inviting more people in Latin America and the Caribbean to dare to leave their countries, however they can, in the hope of reaching the United States, where in spite of the rhetoric, their labor will likely continue to be needed."

A **Paul Dwyer, CEO of Viamericas Corporation:** "The remittance marketplace has undergone a significant transformation in the last 15 years, with competition driving a significant reduction in costs and an increase in service levels. Regulatory oversight has improved the transparency, safety and reliability of service, and has strengthened the relationship between money-transfer providers and law enforcement officials at all levels. It is universally agreed upon that informal or 'underground' money-transfer networks pose significant risks to all concerned: to customers, unlicensed informal operators pose a much higher risk of hidden fees and potential loss of funds, with no protection, and service levels far below expectations; to law enforcement, funds flowing through informal networks are completely invisible, providing none of the critical monitoring and reporting information that licensed money transfer operators routinely provide to law enforcement; and to the remittance industry, informal operators compete unfairly, operating with none of the substantial compliance and consumer protection costs that compliant and regulated companies bear. Today, remittance markets operate efficiently, and there is no broadly based motivation to create or use an informal network. Remittance flows move through regulated and transparent channels, and reporting to law enforcement is very well developed. A remittance tax would up-end that situation, as it would create an economic incentive for senders to seek out informal, unregulated channels where the tax would not be collected. In the recipient counties, shifting remittance flows to underground channels would take compliant formal payers out of the loop—no local bank is likely to agree to pay out a remittance transfer for an underground send network. Therefore, the established criminal networks that exist in some receiving countries are likely to become involved in underground remittance distribution, with the logical and tragically predictable result that the flows and the recipients will be subject to theft and extortion. The possibility of a surge in underground activity is much greater today than it has ever been. Finally, the unintended consequence of a remittance tax would be to provide additional motivation for increased migration from Mexico and Central America. Remittances support families and relieve the pressure to migrate that violence and poor economic prospects create."

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

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