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## FEATURED Q&amp;A

## Are Mexico's Banks Facing Headwinds or Tailwinds?



BBVA Chairman Francisco González expressed "enormous confidence" in Mexico as the bank announced a new investment in its BBVA Bancomer unit. // File Photo: BBVA.

**Q** Spain-based BBVA said March 3 that it will invest \$1.5 billion in its BBVA Bancomer unit in Mexico over the next four to five years. After a meeting with Mexico's finance minister, BBVA Chairman Francisco González expressed "enormous confidence" in the country and in its business community. How healthy are Mexico's banks, and what are the major tailwinds and headwinds they face? What are the biggest effects that the policies of Mexican President Enrique Peña Nieto and U.S. President Donald Trump are having on Mexican financial institutions? How are consumer confidence levels and demand for loans holding up in Mexico?

**A** Felipe Carvalho, member of the Financial Services Advisor board and vice president and senior analyst for Latin America banking at Moody's Investors Service: "Although changes in U.S. trade policies could have a negative impact on the Mexican economy, especially on manufacturing and agricultural exports, we expect that banks' relatively low direct exposures to these sectors will help limit the damage to their balance sheets. The automotive industry would be the most vulnerable to any rise in tariffs that might result from a renegotiation, or elimination, of NAFTA, but it accounts for just 2 percent of commercial loans. Exposures to agriculture are slightly higher at 4 percent of commercial loans, but these are mainly short-term loans and benefit from different types of guarantees provided by government development agencies. While borrowers that depend on imported inputs or with significant foreign currency debt may face increased financial pressure as a result of the weaker peso, most of these are foreign-currency earners,

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## TOP NEWS

## FINANCIAL SERVICES

### Jamaica to Launch New Financial Protection Agency

The Caribbean country's government is planning to unveil a new consumer protection agency that is aimed at helping customers avoid exorbitant bank fees.

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## TECHNOLOGY

### Creditas Raises \$16 Mn for Auto Loan Refinance

Financial technology company Creditas Soluções Financeiras Ltda. raised the money through the asset-backed debt market. Traditional lenders have recently moved away from auto loans.

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## BANKING

### Venezuela Taps Small Banks for Trade Deals

The government of Venezuelan President Nicolás Maduro is using smaller, little-known banks to provide correspondent banking services as larger banks grow more wary of the risks of doing business there.

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Maduro // File Photo: Venezuelan Government.

## BANKING NEWS

## Venezuela Taps Small Banks for Trade Deals in Dollars

The Venezuelan government is tapping some smaller, little-known banks to provide correspondent banking services, after Citigroup last year stopped serving as an intermediary for dollar-denominated international trade operations, the Associated Press reported March 20. The Venezuelan government has turned to smaller banks to handle such deals, as larger international banks are increasingly wary of the risks of doing business with Venezuela as

**Puerto Rico-based ItalBank is among the small lenders providing services to Venezuela.**

the government grapples with allegations of corruption and drug trafficking. Venezuelan President Nicolás Maduro has also said the country is struggling to find banks that will provide financial services due to the country's severe economic crisis. Government officials have said the corruption allegations are being used by their adversaries in the United States as part of an "economic war" to undermine the socialist country. Citi is still servicing the payment of state-run oil company PDVSA's high-yielding bonds, due to a contractual obligation. One small bank providing correspondent banking services to Venezuela is ItalBank, a Puerto Rican lender owned by Venezuelan entrepreneur Carlos Dorado. The bank has been serving Venezuela since last year. A person close to the government said that without the help of Dorado and his bank, the country would have an even more difficult time importing basic goods. "Thanks to Dorado we have been able to pay for food imports," said a person close to the government who asked not to be identified. He added that ItalBank "has

processed hundreds of millions of dollars in payments."

## Brazil Consumer Loan Demand Falls 7.2% in February

The number of consumers in Brazil who requested loans declined 7.2 percent in February as compared to January, according to a report by Serasa, the local unit of Experian, Reuters reported March 16. The Carnival holiday and still-high borrowing costs kept loan demand low, the company said. The majority of requests for loans came from consumers seeking to refinance existing loans, economists at Serasa said in the report. Amid Brazil's severe recession, loan demand has been weak for five years, the report said, adding that a sharp decline in the country's currency has also hampered borrowers' efforts to pay off their loans. Adjusted for the number of working days in February, loan demand was flat from the same month last year, the report's authors said. "That shows a still-weak demand for credit in the segment," they said.

## Jamaica's NCB Suspends Dormant Account Fees

Jamaica's National Commercial Bank, or NCB, said March 15 that it was immediately suspending fees for dormant accounts, the Jamaica Observer reported. The change applies to accounts both in local and foreign currencies. "While they are suspended, we will review our current processes and determine how we can best address the real costs associated with effectively maintaining and monitoring these accounts," said Audrey Tugwell-Henry, NCB's senior general manager for retail banking. "We will, in the meantime, seek to identify solutions that meet our customers' needs and our performance standards, while remaining compliant with all regulatory requirements associated with maintaining the accounts." The bank had

## NEWS BRIEFS

## Jamaica Planning to Launch New Financial Protection Agency

The Jamaican government is planning to unveil a new financial services consumer protection agency that is aimed at helping protect bank customers from exorbitant bank fees, The Jamaica Observer reported March 9. Finance and Public Service Minister Audley Shaw told the Caribbean country's House of Representatives that Jamaican banks currently hold 45 billion Jamaican dollars in dormant accounts, adding that the government is especially concerned that banks are overcharging the dormant accounts.

## Royal Bank of Canada Closes Accounts Linked to Panama Papers

Royal Bank of Canada has closed the accounts of approximately 40 clients and boosted its tax compliance measures following a review after last year's massive leak of documents related to Panama-based law firm Mossack Fonseca, Bloomberg News reported March 7. "We reviewed all accounts related to Mossack Fonseca in depth," J.F. Courville, the chief operating officer of the bank's wealth management unit, told the Toronto Star. The leak detailed how the firm helped conceal money through offshore accounts.

## Bank of America Taps Fernández for Mexico Investment Banking Role

Bank of America has named Ricardo Fernández Rebolledo as its head for Mexico investment banking, Reuters reported March 10, citing an internal bank memo. A New York-based spokesman for the bank confirmed the appointment. Fernández is moving to Bank of America from Credit Suisse.

assessed a charge of 450 Jamaican dollars (\$3.49) to dormant business and personal accounts. Accounts at Jamaican banks are considered dormant if customers initiate no activity for two years on savings accounts and



**Tugwell-Henry** // File Photo: The University of the West Indies, Mona.

for one year on checking accounts. Financial institutions in the Caribbean country are required to report to the Bank of Jamaica any deposits that are unclaimed for a period of seven years. After a total of 15 years, Jamaica's Banking Services Act allows the country's finance minister to publish information on the unclaimed accounts. Accounts that remain unclaimed can eventually be paid over to the government.

## TECHNOLOGY NEWS

### Brazil's Creditas Raises \$16 Mn for Auto Loan Refinance

Brazil-based financial technology company Creditas Soluções Financeiras Ltda. has raised \$16 million through the asset-backed debt market for auto loan refinancing, Reuters reported March 16. Traditional lenders have moved away from that segment of the market due to high rates of delinquencies. The transaction took place last month and was the first in which Creditas fully decided on procedures for credit scoring and collections, said the company's chief executive officer, Sergio Furio. The loan proceeds will be used for refinancing auto loans for a lower cost than offered by traditional banks, he said. Since large banks partially exited the auto loan market five years

## FEATURED Q&A / Continued from page 1

and hence have a natural hedge. Moreover, foreign-currency loans account for a relatively limited 13 percent of total loans. Fully gauging the long-term credit impact any change in the U.S.-Mexico trade relationship will have on Mexican banks will require more clarity regarding U.S. policy plans. Despite declining consumer and investor confidence, banks are nevertheless maintaining plans to expand loan books at more than twice the pace of nominal GDP growth over the next year. The high level of uncertainty is likely to cause companies to delay investment decisions, which together with rising interest rates will likely lead to a slowdown in economic growth and in turn rising asset risks for banks. However, non-performing loans are at record low levels for the time being, and banks are well capitalized and highly profitable, notwithstanding high credit costs. Moreover, rate hikes will further boost margins at large lenders with inexpensive deposit funding. At the same time, earnings at small and mid-sized banks will decline, given their higher dependence on market funding, which will become more expensive as rates increase, potentially leading to consolidation pressures."

**Alejandro Garcia Garcia, managing director and regional group head for Latin America Financial Institutions at Fitch**

**Ratings:** "Mexican banks are starting 2017 in very good financial shape, with sound capital adequacy metrics, ample liquidity, stable and good asset quality ratios as well as resilient and mildly improving recurring earnings.

The medium- and long-term prospects are positive, since there are ample growth opportunities, given the still low level of financial intermediation. Also, indebtedness levels among households and businesses are reasonable and relatively lower than in other comparable emerging markets. Nonetheless, near-term headwinds and challenges are material and rapidly evolving.

A more uncertain external environment, particularly driven by the potential shifts in U.S. policies toward Mexico, is exacerbating the risks and uncertainties for the Mexican economy's near-term prospects. Projections

“Near-term headwinds and challenges are material and rapidly evolving.”

— Alejandro Garcia Garcia

for GDP growth in 2017 and 2018 have been revised downward, while expected inflation is trending upward, and business and consumer confidence have deteriorated. The near-term prospects for Mexican banks are highly sensitive to the economic environment, and this has been clearly worsening recently, with ample downside risks still on the horizon. Considering this tougher environment, we expect loan growth to slow down materially in 2017, perhaps to the 6 to 8 percent nominal annual growth range. Asset quality is likely to worsen from the exceptionally sound metrics reported at year-end 2016, pressuring credit costs and overall profitability. Positively, wider margins on higher interest rates will likely offset the rising credit costs for major banks. Smaller banks and non-bank lenders with more concentrated business models and reliant on wholesale funding are more exposed to the worsening environment."

**José Carlos Rodríguez Pueblita, senior director at ManattJones Global Strategies:** "After the banking crisis experienced in the mid-1990s, Mexico implemented a series of measures that leapfrogged financial regulation in developed countries. Since then, Mexico's regulatory standards and strong banking sector have served as a reference

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ago, outstanding vehicle loans at Itaú Unibanco Holding, the country's largest bank by assets, shrank by some 70 percent, Reuters reported. The use of securitization could help financial technology companies fund loan originations more efficiently, which could result in lower borrowing costs, the wire service reported.

## POLITICAL NEWS

## Argentine Teachers Plan Protests as Strikes Continue

Teachers in Argentina are planning a series of demonstrations March 21 in public squares across the country, which are expected to culminate in a large march on March 22 to the

“I’m completely for this strike, my salary doesn’t cover anything.”

— Diego Sabadell

presidential palace in Buenos Aires, The Wall Street Journal reported. The protests come as teachers in several school districts are entering the third week of strikes, which have delayed classes for hundreds of thousands of children. Striking teachers are demanding higher wages and blasting President Mauricio Macri, saying he has failed to jump-start the economy and control inflation, which reached 40 percent last year. “I’m completely for this strike, my salary doesn’t cover anything,” elementary school teacher Diego Sabadell, 29, told the newspaper.

## Two Officers Killed, Eight Wounded in Guatemala Attacks

Two police officers were killed and eight others were wounded in a series of attacks March 20

## THE DIALOGUE CONTINUES

### Would Taxing Remittances Have Unintended Results?

**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** Jeff Jones, Republican member of the Georgia House of Representatives: “By many estimates, today’s underground economy in the United States exceeds \$2 trillion, and in remittances alone, \$1.7 billion left Georgia in 2006. Human traffickers, drug dealers, gamblers and those paid in cash for their work make up much of the underground

cash economy. When money in a cash transaction—including in the black market—is wired out of state, it does not contribute to the state’s economy. One way to mitigate the negative impact that these out of state cash wire transfers have on Georgia is to initiate a small, fully refundable transaction fee for use of our financial system. Wire-transfer companies operating in Georgia are licensed by the state, protecting both the businesses and the public. My legislation in the Georgia General Assembly—the Cash Wire Transfer Fee Bill (HB66)—proposes to assess a 100 percent, fully refundable transaction fee of 2 percent for out-of-state wire transfers by most individuals. The fee is fully refundable for every individual as a ‘tax credit’ when they file their Georgia individual personal income tax return. Even persons in the United States illegally are eligible for a 100 percent refund of any fees they paid by using their Individual Tax ID Number (ITIN) on their Georgia Personal Income Return, even if they do not report any Georgia taxable income on their tax return. We have no doubt this common sense system will operate as smoothly in Georgia as it has in Oklahoma for a decade.”

**EDITOR’S NOTE:** The comment above is a continuation of the Q&A published in the Feb. 23-March 8 issue of the Advisor.

in Guatemala, Reuters reported. One civilian was also injured in the incidents that happened just hours after riot police rescued four hostages from rioting inmates at a Guatemala City juvenile prison. Assailants carried out eight attacks against police officers and patrol vehicles in the capital, while another attack happened in western Quetzaltenango department, according to authorities. The attacks in

the capital appeared to have been perpetrated by members of the 18th Street Gang, and seven gang members were detained following the attacks. That gang was the same one at the center of a riot March 19 at the Etapa II juvenile prison in Guatemala City. Gang members rioted to demand the return of 250 fellow gang members who had been transferred to another prison. Two guards were killed during the riot



## NEWS BRIEFS

## Philanthropist, Banker, AS/COA Founder David Rockefeller Dies at 101

Philanthropist and former chairman and chief executive of New York's Chase Manhattan Bank, David Rockefeller, died March 20 at age 101 at his home in Pocantico Hills, N.Y. The last surviving grandson of Standard Oil founder John D. Rockefeller, David Rockefeller founded the Americas Society and Council of the Americas in 1965. "A true statesman, David Rockefeller promoted democracy, open markets, and the rule of law in the Western Hemisphere and beyond, leaving behind a legacy that will long outlive him," the organization said Monday in a statement.

## Uruguay to Withdraw Troops From United Nations Mission in Haiti

Uruguayan President Tabaré Vázquez said March 20 that the country will soon withdraw its soldiers from a United Nations stabilization mission in Haiti, the Associated Press reported Monday. Vázquez said the approximately 250 Uruguayan soldiers in Haiti will return home in April. The announcement came days after U.N. Secretary-General António Guterres told the body's Security Council "the military component should undergo a staggered but complete withdrawal of the 2,370 personnel" in Haiti.

## Brazil Yellow Fever Outbreak Has Killed at Least 137: Officials

Brazil's Health Ministry said March 16 that 424 people have been infected by yellow fever and 137 have died in what is the country's largest outbreak of the mosquito-borne disease in years, the Associated Press reported. A report from the Health Ministry said more than 900 cases are under investigation. The vast majority of confirmed cases have been in Minas Gerais state.

on March 19, and third died the following day after sustaining injuries during the incident.

## Death Toll Rises to 72 in Peru Flooding

The death toll has risen to 72 amid flooding and mudslides triggered by a series of storms that have caused rivers to overflow in Peru, authorities said March 18, the Associated Press reported. The rains, which have affected half the country, have overwhelmed drainage systems in cities along the country's coastline, and water service has been out in Lima for a week, the AP reported. On the outskirts of the capital, police had to rescue people from across a flooded road by sending them one-by-



The heavy rains have flooded homes across Peru, including in the city of Piura. // Photo: Agencia Andina.

one through choppy waters while holding on to a rope. Some residents in the neighborhood were forced to leave their homes carrying just a single bag with their belongings. In Peru's Lambayeque region, 22 inmates at a juvenile detention center escaped amid the natural disaster. In the city of Trujillo, the heavy rains flooded a cemetery, unearthing bones, which then floated through the streets. In all, 811 cities in the country have declared an emergency, and the government has deployed the military to help police keep order. The presidents of Chile, Venezuela and Bolivia have offered to send assistance. Peru's government also acknowledged that prices for basic goods have climbed. "The prices for lemons have gone up, as well as for potatoes and cooking oil," Sara Arevalo told the AP as she shopped in a market in northern Lima. Authorities have blamed the storms and flooding on the El Niño weather pattern.

## ECONOMIC NEWS

## Countries Ban Meat From Brazil Amid Bribery Scandal

China, the European Union, South Korea and Chile on March 20 announced full or partial suspensions of imports of meat and chicken from Brazil after learning of a bribery scandal in which Brazilian health inspectors were paid off to allow meatpacking companies to keep spoiled meat, some of which was later exported to other countries, on the market, the Financial Times reported March 20. "At face value, the developing scandal over Brazil's meat exports could plausibly derail the country's economic recovery," said Capital Economics in a note. The country has been relying on its agriculture sector to help pull the country out of its severe recession. Police have said 21 companies, including JBS and BRF, allegedly paid bribes to government inspectors in order to help them obtain clearances and health certificates. The companies have denied wrongdoing.

## Holders of Puerto Rico's COFINA Bonds Seek Ruling

The holders of Puerto Rico's so-called "COFINA" bonds said that approximately \$3.5 billion of the commonwealth's general obligation (G.O.) debt is invalid, because it exceeds constitutional debt limits, Reuters reported March 19. The allegation has added pressure to the bitter litigation battle between the G.O. and COFINA, as both sides claim legal rights to payment. The COFINA group, whose bonds are backed by sales tax revenue, have asked a federal judge to block the G.O. group's effort to prevent Puerto Rico's government from paying COFINA debt over G.O. debt. The G.O. group's lawsuit says that its debt must be paid before other debt obligations, because it is guaranteed by the island's constitution.

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point. It is no coincidence that the next general manager of the Bank for International Settlements will be Agustín Carstens, who is highly regarded for his work both as governor of Mexico's central bank and as a former secretary of finance. But the robustness of the financial sector has not come without a cost. Regulation is burdensome, bank competition is limited and service costs are high, all of which are reflected in low financial penetration. Moreover, Mexican banks are among the least-trusted private entities, according to a yearly survey performed by Mitofsky since 2004. There are, however, changes on the horizon that will shake up the financial sector. The renegotiation of NAFTA may expand market access by allowing U.S. and Canadian banks to open branches in Mexico and by making it easier to access money management services in the other member countries. In addition, the nascent fintech industry in Mexico could lead to disruptive changes. The expectation is that a regulatory network will emerge that is conducive to a healthy fintech environment of innovation with enhanced customer protections and security. The traditional banking system will have to decide to resist or adjust. BBVA, for example, has chosen to adjust to the changing landscape by investing in and incorporating new services into its product offerings."

**A** **Nicolás Mariscal, chairman of Grupo Marhnos in Mexico City:** "Since last year, the Bank of Mexico has increased its reference rate from 3.25 percent to 6.25 percent, due to the depreciation of the peso and the rise in gasoline prices. While these measures will affect consumption levels, they will also strengthen the peso and promote investment. Regardless of the short-term challenges facing the country, Mexico is an attractive market for banking for several reasons: it has more than 120 million inhabitants, making it the world's 10th-most populous nation; it is also the 15th-largest economy and 11th in purchasing-power parity. In addition, the reforms approved during the current administration have been advancing in their implementation, and are strengthening the country's institutional framework. With regard to NAFTA, the benefits of this agreement have been supported by much statistical data that has come to light, demonstrating that the causes of unemployment in the United States are not mainly due to free trade. At first, there was talk of discarding the agreement, but now there is talk of renegotiating it. As Mexico prepares for the negotiation, it is working on ways to diversity its markets, and I trust that this process will serve to strengthen the country."

## FINANCIAL SERVICES ADVISOR

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## Brazil's Political Malaise

An Inter-American Dialogue Discussion with Claudia Trevisan of O Estado de S.Paulo, João Augusto de Castro Neves of the Eurasia Group and Peter Hakim of the Inter-American Dialogue

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